UNITED NATIONS
ECONOMIC AND SOCIAL COUNCIL

Distr.
LIMITED

E/ECA/LDCs.7/EXP.6/2
25 March 1987

Original: ENGLISH/FRENCH

LC/NAIROBI

ECONOMIC COMMISSION FOR AFRICA

Sixth meeting of the Inter-governmental Committee of Experts of African Least Developed Countries

Addis Ababa, Ethiopia
9-11 April, 1987

ECONOMIC COMMISSION FOR AFRICA

Seventh meeting of the Conference of Ministers of African Least Developed Countries

Addis Ababa, Ethiopia
21-22 April 1987

REVIEW OF ECONOMIC AND SOCIAL CONDITIONS IN AFRICAN LEAST DEVELOPED COUNTRIES
1985-1986

TABLE OF CONTENTS

Page

I. INTRODUCTION 1

II. GLOBAL EVALUATION OF THE ECONOMIC AND SOCIAL CONDITIONS .. 1 - 8

III. COUNTRY PROFILES .... 9 - 129

1. BENIN .... 9 - 13
2. BOTSWANA .... 14 - 17
3. BURKINA FASO .... 18 - 21
4. BURUNDI .... 22 - 24
5. CAPE VERDE .... 25 - 28
6. CENTRAL AFRICAN REPUBLIC .... 29 - 33
7. CHAD .... 34 - 37
8. COMOROS .... 38 - 41
9. DJIBOUTI .... 42 - 46
10. EQUATORIAL GUINEA .... 47 - 50
11. ETHIOPIA .... 51 - 54
12. GAMBIA .... 55 - 59
13. GUINEA .... 60 - 64
14. GUINEA-BISSAU .... 65 - 67
15. LESOTHO .... 68 - 71
16. MALAWI .... 72 - 76
17. MALI .... 77 - 82
18. MAURITANIA .... 83 - 86
19. NIGER .... 87 - 93
20. RWANDA .... 94 - 97
21. SAO TOME & PRINCIPE .... 98 - 100
22. SIERRA LEONE .... 101 - 105
23. SOMALIA .... 106 - 109
24. SUDAN .... 110 - 114
25. TOGO .... 115 - 119
26. UGANDA .... 120 - 123
27. UNITED REPUBLIC OF TANZANIA .... 124 - 129

INTRODUCTION

1. Mid-course into the Third United Nations Development Decade, developing Africa's economic and social development record is substantially worse than in the 1970s. The intensification of the development crisis had galvanised African Governments into adopting Africa's Priority Programme for Economic Recovery (APPER) 1986-1990. APPER was subsequently endorsed in resolution S-13/2 of 1 June 1986 by a special session of the United Nations General Assembly on Africa's economic and social crisis which adopted the United Nations Programme of Action for Africa's Economic Recovery and Development 1986-1990 (UN-PAAERD).

2. Among developing African countries, the economies of the 27 least developed countries (LDCs), which are characterized by formidable structural deficiencies have been hardest hit in the milien of the current development crisis in the region. With their extremely low per capita income estimated at an average of $158 in 1985, the African LDCs find it difficult to raise adequate savings necessary for development financing. They depend on single export commodities which face inelastic demand and declining prices in international markets. Industrial production is limited to a few import-substitute processing activities with very high import-content, a condition which exerts pressure on meagre foreign exchange resources to import raw materials and spare parts. Inadequate physical and social infrastructure present major impediment to the maximization of their economic capacities, particularly with respect to production structures. Aid flows on concessional terms have dwindled considerably forcing these countries to contract heavy debt whose servicing absorbs an average of over 30 per cent of export earnings.

3. It was in this context that the special United Nations meeting on the LDCs adopted the Substantial New Programme of Action (SNPA) in 1981. The SNPA aims at promoting the structural changes necessary to overcome the extreme economic difficulties of the LDCs. The UN Programme for Africa's Economic Recovery contains many of the priorities identified and recommendations made in the SNPA which makes it imperative for the African LDCs to implement the programme expeditiously so as to ensure adequate economic recovery and growth.

4. This review seeks to analyse the economic and social conditions of the African LDCs against the background of the aforementioned crisis. It comes in two parts. The first part gives an overview of the socio-economic conditions of African LDCs as a group while the second part deals with the economic and social profile of each of the 27 African LDCs.

I. GLOBAL EVALUATION OF ECONOMIC AND SOCIAL CONDITIONS

A. Overall growth performance

5. The economic recovery which begun in the African LDCs during 1985 continued in 1986. Real GDP (1980 prices) grew by 4.2 per cent in 1986 as against 0.7 per cent in 1985. This growth performance is largely explained by the recovery in agricultural activity after the devastating drought years of 1982-1984. In absolute terms, GDP (1980 factor cost) of the African LDCs rose from $US40.6 billion in 1985 to $US 42.3 billion in 1986. This trend was reflected in a per capita income increase of a modest 1.6 per cent in 1986 as against a decline of 1.9 per cent in 1985.

6. The above achievement was attained under difficult conditions characterized by: declining prices of major export commodities of significance to the LDCs; substantial drop in capital flows which reduced the import capacity of the LDCs and led to downward revisions of their investment programmes; the increasing external debt burden and the persistent deterioration in the external payments position. However, the dire consequencies of reform measures undertaken by most African LDCs was cushioned by favourable climatic conditions. Rainfall was abundant and well distributed producing substantial crop yields in most of these countries. The recovery in agriculture also had a strong linkage effect on agro-industrial activities contributing substantially to the overall increase in value added.

B. Major development problems and policies

7. On the whole, the return of normal rainfall helped to improve agricultural production significantly in most African LDCs. However, the sector continues to experience the same constraints, al beit desertification; strong population pressure on cultivable land, inadequate investment in agriculture, etc. Inspite of falling world prices for such major commodities as coffee and cotton, African LDCs were unable to diversify their production base.

8. The overall food situation improved although some of the countries are experiencing substantial grain deficit because of difficulties in reconstituting seed stock, as well as excess demand induced by high population growth. The delayed effects of the drought conditions in recent years will continue to be felt for two or three more years. This implies that substantial food aid would have to be secured while efforts are made to rehabilitate national capabilities for food production. In 1987 for example, Ethiopia would need some 1.2 million tons of food aid while Comoros will depend on food aid to meet 80 per cent of its food needs.

9. The manufacturing sector is also plagued by high transportation cost, especially the landlocked countries, which make their industrial products uncompetitive. The sector is affected by difficulty in securing spare parts and raw materials because of limited foreigh exchange. There is also the precarious cash-flow problems of existing industrial plants. In public finance, the revenue base is extremely narrow which engenders reliance on external resources and increased reccourse to the domestic banking system to finance chronic budget deficits. The external indebtedness of the African LDCs constitute a major impediment to attaining adequate recovery and economic growth. In general, the external payments crisis had deepened as a result of the combined effects of deterioration terms of trade, falling prices of primary commodities and decline in capital inflows and unrequited transfers.

10. To cope with these various imbalances, several African LDCs had formulated and are implementing recovery plans, stabilization and/or adjustment programmes supported by higher tranche conditionality arrangements with the IMF and the World Bank. The expressed objectives of these programmes is to rehabilitate and

expand the major production sectors, and the restoration of balances in major macro-economic aggregates such as the fiscal and external accounts. Substantive differences and skeptism remain, however, on the rationale of the policy instruments and reform packages perscribed by the IMF. These programmes, in the absence of the much-promised increased inflow of external financing, have resulted in sharp cuts in imports, investments, budgets and social outlays. Hence, some LDCs have shown reluctance to forge ahead with the implementation of these policies because of their concern to safeguard the social gains achieved and to avoid further destabilization of their economies.

11. Notwithstanding their low per capita income, several African LDCs were able to achieve domestic savings rates above 10 per cent of GDP (Comoros, Malawi, Niger and Togo), and in a few cases exceeding 15 per cent (Botswana, Guinea and Lesotho) during the period 1980-1984. To further improve mobilization of domestic resources, they have implemented measures to create a flexible tax system which is more broadly based and steps are been taken to improve their tax administrations. Measures have also been initiated to improve the efficiency of public sector enterprises.

12. The development and mobilization of human resources, through eradication of adult illiteracy, expansion of public education including vocational training, and development of entrepreneurial capacities, is an important element in the development plans and programmes of the African LDCs. Majority of them decreased their illiteracy rate between 1980 and 1985. In food and agriculture, the African LDCs have taken steps to increase production and productivity, inter alia, increasing the use of the market mechanism, mobilizing the rural population and diversifying production. In sptie of all these positive measures, the development prospects of the LDCs' remain bleak due to the extremely adverse external environment.

C. Expenditure on GDP

13. Deflationary measures under various adjustment programmes had negatively affected the growth in public consumption during 1985-1986. At 1980 prices, public consumption decreased by 3 per cent from $US6.43 billion in 1984 to $US6.24 billion in 1985. In 1986, a 1.01 per cent increase was recorded at a level of $US6.31 billion. Private consumption increased by 3.6 per cent in 1986 as compared to 1.1 per cent in 1985. These modest expansions in domestic consumption freed resources for invesuments which rose from an equivalent of 13.1 per cent of GDP in 1984 to 15.5 per cent in 1985. Such performance can also be ascribed to: the reallocation of public resources to investment as a matter of priority; and the slight increase in imports occasioned by a rise in exports from 4.2 per cent in 1985 to 7.6 per cent in 1986.

14. Domestic demand increased by 2.6 per cent in 1985 and 3.5 per cent in 1986 while the domestic savings rate levelled off at some 5.6 per cent in both years. In nine of the African LDCs, final consumption levels clearly exceeded GDP. Cape Verde and Lesotho recorded rates equivalent to as much as 125.0 and 204.1 per cent of GDP, respectively. These were financed through substantial private transfers mainly remittances from nationals working abroad.

D. Public finance

15. The budgetary situation in African LDCs deteriorated in 1985-1986 due to a drastic decline in revenue collected from customs duties, a principal source of receipts, next to indirect taxation, in these countries. Provisional estimates based on information available on 22 countries 1/ show a budget deficit of about $US2.27 billion in 1985 as compared to $US2.22 billion in 1984. This trend resulted from a revenue decline of $US5.87 billion in 1984 to $US5.13 billion in 1985 while expenditure fell from $US8.09 billion to $US7.40 billion. Estimates for 1986 indicate a deficit of about $US3.54 billion. On average, 68.5 per cent of the financing of these deficits were secured from external scurces and borrowings from the domestic banking system.

16. In general, the revenue structure of the African LDCs for the fiscal year 1986 was 63.3 per cent from indirect taxation and 35 per cent from international trade taxation. With respect to expenditure, 77.6 per cent was appropriated for recurrent expenditure of which 11.5 per cent was allocated to education; 4.9 per cent to health, 5.8 per cent to agriculture, 0.6 per cent to transport and communications and 40.7 per cent to repayment of public debt.

E. External trade, balance of payments, and external debt

17. In spite of the good crop years of 1985-1986, the African LDCs recorded substantial deficits in their external accounts. Exports increased from $US8.5 billion in 1985 to $US8.9 billion in 1986 while the import bill consistently rose dnspite of the drop in food imports and considerable decline in oil prices. Total imports is estimated at $US12.1 billion in 1985 and $US13.4 billion in 1986. This resulted in a trade balance deficit of $US3.6 billion in 1985 and $US4.5 billion in 1986. Except for favourable world market prices for coffee in 1985-1986, prices of the main export commodities of interest to African LDCs were on the decline. Cotton prices fell by 26 per cent, cocoa prices by 11.2 per cent, iron ore by 1.5 per cent, uranium by 17.4 per cent and bauxite by 2.5 per cent.

18. The widening of the trade balance deficit in African LDCs was occasioned by domestic production shortfalls especially of agriucltural products; and the decline in world demand and prices for primary commodities. According to preliminary estimates, the trade balance deficits was up by 31 and 25 per cent in 1985 and 1986 respectively leading to an increase in the current account deficit from $US4.9 billion in 1985 to $US5.7 billion in 1986. As a result of these development, the overall balance of payment stood at $US1.47 billion in 1985 as against $US2.2 billion in 1984.

1/ Botswana, Burkina Faso, Burundi, Central African Republic, Chad, Comoros, Equatorial Guinea, Ethiopia, Gambia, Guinea-Bissau, Lesotho, Malawi, Mali, Mauritania, Niger, Rwanda, Sao Tome and Principe, Sierra Leone, Sudan, Tanzania, Togo and Uganda.

19. The external payments problems have been aggravated by mounting external debt obligations which increased from a manageable level of $US1.9 billion in 1970 to $US5.1 billion in 1975 and $US13.3 billion in 1980. In 1982, the total outstanding debt of African LDCs had reached a level of $US16.1 billion and as at end-1984 it stood at $US26.3 billion with debt service payments absorbing about 25 per cent of export earnings. ECA preliminary estimates indicate that the external indebtedness of these countries would be about $US28 billion in 1985 and around $US39 bSllion in 1986. Although these amounts might seem to be modest in absolute terms as compared to the debts of other developing countries, they continue to exceed 50 per cent of GDP on average. Over 90 per cent of the African LDCs' external debts consist of medium and long-term debts.

20. Debt service payments in 1984 amounted to $US1.3 billion. Those arising from non-concessional debts have continued to form the main part of African LDCs' total debt service payments. Although some debt relief has been provided by some DAC member countries for their ODA debt to majority of the LDCs under Trade and Development Board resolution 165 (S-IX), the debt service problem remains critical for all African LDCs. The problem has been exacerbated by a sizeable proportion of non-commercial debt and by the significant increase in the multilateral debt which is not under the purview of resolution 165 (S-IX) and is subject to multilateral reschedulings. Since the adoption of the SNPA in 1981, a number of LDCs have had recourse to the Paris and London clubs to reschedule their official and commercial debts. Moreover, a number of them had to ask for several reschedulings in order to cope with their increased debt liabilities. However, these reschedulings have also proved to be inadequate as they only provide temporary relief and do not entail a diminution of debt stocks and eventually adds to the debt burden.

F. Sectoral performance

1. Food and agriculture

21. Agriculture remains the dominant sector and a major determinant of overall economic growth in African LDCs. The sector contributes an average of over 50 per cent of GDP, accounts for about 70 per cent of export earnings and employs the bulk of the labour force. The adverse impact of severe drought conditions since 1982, led to a substantial shortfall in agricultural output, which, in real terms, is estimated to have declined by 1.2 per cent in 1982, -2.2 per cent in 1983 and -5.2 per cent in 1984.

22. Crop yields were satisfactory despite torrential rains which affected cash crops in Tanzania and Malawi and the locust infestation (particularly in the Sahel region) of some 350,000 hectares in Mali and 400,000 hectares in Niger. Inspite of the improvement in overall food production, several LDCs have reported considerable grain deficit due to excess demand from high population growth. For instance, cereals deficit for Botswana is estimated at 160,000 tons, 660,000 tons for Cape Verde, 26,000 tons in the Comoros, 130,000 tons in Guinea, 100,000 tons in Mauritania and 40,000 tons in Rwanda.

23. Lessons from the drought had compelled African LDCs governments to adopt measures aimed at stimulating agricultural production. These include increased investment in agriculture which is supplemented by external emergency and short-term assistance for rehabilitation activities; substantial hikes in producer prices and the introduction of guaranteed floor prices; better credit facilities; timely delivery of inputs and expanded research in high yielding crop varities. These measures combined with favourable climatic conditions, especially the return of normal rainfall, helped to resuscitate agricultural production in 1985 with value added in real terms (1980 prices) increasing by 0.5 per cent. In 1986, overall agricultural output is estimated to have increased by 5.5 per cent.

2. Industry

24. During **1985-1986, this sector grew** by 2.6 per cent in real terms. There was an upswing in the activities of manufacturing industries (+3.4 per cent in 1986 as against +2.2 per cent in 1985), of the water, gas, electricity sector (+6.2 per cent in 1986 as compared to -1.4 per cent in 1985). There was a declining trend in extractive industries (+1.6 per cent in 1986 as against 6.2 per cent in 1985), building and public works industries (+0.7 per cent in 1986 as against +1.4 per cent in 1985).

25. Apart from agriculture, extractive industries are extremely vital to overall economic growth performance in African LDCs. Because of their capital-intensive nature most of the countries contracted substantial loans for investments in oil exploration and drilling and the development of mineral resources. However, the expected returns from these investments have been minimal due to the long-gestation periods required as well as the slump in world prices for key minerals, other than diamond and gold. Thus, Benin (oil), Mauritania (iron and copper), Rwanda (cassiterite), Sierra Leone (bauxite and iron) and Togo (phosphates) were compelled to down grade their investment programmes taking into account the shortfalls in projected government income. On the other hand, the recovery in agriculture had a positive impact on agro-industrial output.

26. The major obstacles to industrial development in African LDCs still remain: the inadequate level of new investment and re-investable resources; the small size of domestic markets, insufficient outlet and low purchasing power for manufacturers; under-utilization of existing production capacities which are caused by a shortage of foreign exchange to provide a regular supply of raw materials and spare parts; the lack of technical and managerial personnel, and the fact that most of the countries, being land-locked, have higher production costs. A good performance was exhibited by the industrial sector of Mali which reformed its parastatal sector, provided substantial line of credits for operating funds of existing industries and improved energy supply through the commissioning of the Selingue dam. Performance was equally good in Ethiopia where the recovery of agriculture triggered off a recovery in industrial production.

G. Implementation of the Substantial New Programme of Action

27. Twenty countries 3/ have opted for UNDP round tables while Guinea, Somalia, Sudan, Tanzania and Uganda are being assisted by the World Bank to organize consultative group meetings. As of 31 December 1986, 17 countries had organized review 4/ meetings. During the 1985-1986 period, three countries, Cape Verde, Mali and Togo held a second round of meetings to secure financing either for economic recovery programmes or medium-term development plans.

28. Based on Roundtable (RT) experiences, the UNDP had recently introduced significant changes to improve the RT process. «In the new format, the roundtable process is viewed as a recurrent cycle, a continuing process of consultation, information and negotiation with the donor community. It focusses on two groups of closely related events; the roundtable conference and its related activities on the one hand, the sectoral and general programme consultations, on the other. The Roundtable Conference takes place in a major European city and participation in this meeting is restricted to the principal funding partners». An assessment of the new format is premature at the moment since it has not been put into effect, but suffice to state that «the mobilization of additional resources for the LDCs from traditional as well as new donors should remain the central task of country review excercises.»

29. Recent estimates on financial flows to African LDCs indicate that total net disbursement (in current $US) was around $5.3 billion in 1984 rising to $6.1 billion in 1985 mainly as a result of increases in emergency relief and funding of structural adjustment programmes. Concessional loans and grants amounted to $5.8 billion in 1985, up by 18 per cent over the 1984 receipts of $4.9 billion, while non-concessional flows rose from $396 million to $415.1 million. The major source of development finance for African LDCs is still DAC official development assistance (ODA). DAC bilateral and multilateral flows as a proportion of total financial flows was 78 per cent or $4.2 billion in 1984 and 84 per cent or $5.1 billion in 1985 (see annex III).

30. On the other hand, total OPEC concessional loans and grants (non-concessional flowsxare negligible) to African LDCs have declined harply in recent years, from a peak level of $660.1 million in 1983 (highest attained since 1975) to $309 million in 1985. This decline is a reflection of the impact of lower revenues from oil exports on OPEC's aid budget. In fact, the fall in oil prices is expected to be translated into further cuts in OPEC aid in future years.

3/ Benin, Botswana, Burkina Faso, Burundi, Cape Verde, the Central African Republic, Chad, The Comoros, Djibouti, Equatorial Guinea, Ethiopia, the Gambia, Guinea-Bissau, Lesotho, Mali, Niger, Rwanda, Sao Tome and Principe, Sierra Leone and Togo.

4/ Namely: Benin, Burundi, Cape Verde, Central African REpublic, Chad, Comoros, Djibouti, Equatorial Guinea, the Gambia, Guinea, Guinea-Bissau, Lesotho, Malawi, Mali, Rwanda, Sao Tome and Principe and Togo.

H. Medium-Term prospects

31. Should the good rainfall continue in 1987 and the economic recovery efforts begun in most African LDCs be maintained, the group's GDP growth rate (1980 prices) is forecast to be around 4.1 per cent. This performance would be largely attributable to enhanced agricultural production with an increase in value added of 3.7 per cent, and increases in manufacturing output which is expected to grow by 5 per cent. These growth forecasts may be affected by the worsening external debt repayment obligations at a time of considerable drop in external assistance which is absolutely necessary to support investment activities. It is, therefore, absolutely necessary for international support measures to be stepped up in areas of strengthening the LDCs export capacity so that adequate foreign exchange earnings could be realized to meet import requirements especially of capital goods which are needed in rehabilitation of the key productive sectors. Industrialized countries should also endeavour to ease the debt servicing burden of African LDCs which could provide a temporary relief and release resources for development finance in the African LDCs.

BENIN

I. OVERALL GROWTH PERFORMANCE

32. The difficulties that public enterprises and extractive industries underwent slowed down economic growth in 1985 and 1986 despite a clear improvement in climatic conditions and an upswing in tertiary activities which followed the reopening of the border with Nigeria. Over the same period, the public treasury faced severe constraints particularly as a result of dwindling profits from PANOCO - the Pan Ocean Oil Company's drilling of the offshore petroleum deposit of SEME. The trade balance deteriorated as it became more difficult to find markets for the Onigbolo cement complex. GDP growth (1980 prices) was estimated at 4 per cent in 1985 and 3.9 per cent in 1986 as compared to 5.3 per cent in 1984.

II. MAJOR DEVELOPMENT PROBLEMS AND POLICIES

33. Despite the return of normal rainfall and intensified assistance and management together with the recent pattern of denationalization, the situation in nearly all productive sectors deteriorated during the period under review. In agricultural production for instance, Benin was faced with the following problems: (i) environmental degradation coupled with creeping desertification which continued to reduce cultivated land, now accounting for no more than 29.3 per cent of the total land area; (ii) low storage and processing capacity for such crops such as cotton and sugarcane; (iii) unremunerative prices for farmers; (iv) unpredictable markets and; (v) the aging of palm plantations. These problems were worsened by the remoteness of producing areas and the structural deficiencies of certain co-operatives.

34. The upswing in industrial production was held back by the fall in petroleum prices, the small size of the domestic market and the mismanagement of existing plants. The expected gains from exploitation of the offshore petroleum deposit fell far below the revenue estimates anticipated to off-set the substantial loans contracted to develop that resource. The oil contract does not seem to favour Benin. This might explain why the licence granted to PANOCO (which was replacing SAGA PETROLEUM BENIN a 100 per cent Norwegian-owned subsidiary) was withdrawn.

35. Palm oil processing by the Société nationale de l'industrie du corps gras (SONICOG) ran into difficulties relating to heavier fixed charges, indebtedness and dwindling operating funds. These financial constraints were worsened by the misappropriation of substantial public funds.

36. The stagnation in the public income generating sectors somehow compromised the Government's efforts to achieve sustained growth and equilibrium in the trade balance at the same time as collectivization was broadened. Substantial deficits were recorded by public enterprises and parastatals. As a result, they were unable to make the necessary input into the State budget. Investments were therefore revised downwards while the decline in the country's foreign reserves diminished its capacity to honour its commitments.

37. In the face of such disequilibria, the authorities took a number of measures to revitalize directly productive activities. Those measures included the raising of producer prices, reduction of the number of middlemen in the distribution circuits, the consolidation of debts contracted by those public enterprises that could be salvaged and the raising of credit ceilings. It was also noted that the activities of the Centres d'action regionale pour le développement rural (CARDER) in agricultural extension and the creation of production factors, the mobilization of rural savings and agricultural loan recovery were intensified. A programme is being carried out to rehabilitate the oil palm industry. In this connection, the organizational structure and financing of SONICOG will be reviewed, oil presses will be rehabilitated and their stocks reconstituted. The way this industry is organized and managed will be revamped and oil plantations will be rejuvenated.

38. The petroleum sector is also undergoing a complete change with the beginning of the third phase in the development of the SEME deposit in connection with which seven new wells are to be drilled. The idea is to revitalize the sector so that it can bring substantial revenue into the treasury, help to improve the trade balance and provide for the training of nationals in this field.

39. The Government's commitment to economic and financial recovery, coupled with its need for external financing, has resulted in the preparation of a three-year plan (covering 1986-1989) with the assistance of the World Bank. The priority objective of the programme adopted is to re-establish the macro-economic balance in public financing and foreign trade through: (i) a drastic reduction in public spending with particular reference to recurrent expenditure; (ii) the winding up of ailing enterprises; and (iii) reductions in the staff of public services. This will be effected through automatic retirement of civil servants at the age of 55 after they have served 30 years and restrictions on new recruitment. Such measures should lead to the rescheduling of the foreign debt and the granting of loans under a letter of intent agreement with the IMF.

III. EXPENDITURE ON GDP

40. The domestic spending pattern shows a resurgence in public expenditure in 1986 after two consecutive years of decline and a private consumption increase of 1.4 per cent in 1985 and 5.0 per cent in 1986. And yet, the share of final consumption as a percentage of GDP remained relatively stable at 100 per cent in 1985 and 101.1 per cent in 1986. The decline in the investment rate continued as a result of the squeeze in public investment. The rate was 10.9 per cent in 1985 and 10.8 per cent in 1986. The resource deficit amounted on average to the equivalent of 11.4 per cent of GDP.

IV. PUBLIC FINANCE

41. The total revenue and expenditure in the budgets for 1985 and 1986 was established at CFAF 50.8 billion and CFAF 57.0 billion respectively. Of these amounts, recurrent revenue accounted for CFAF 45.1 billion and CFAF 52.7 billion respectively. On average, as much as 43.5 per cent of these resources were made up of customs revenue while recurrent expenditure (83.6 per cent of which went to pay staff costs), accounted for about 43.1 per cent of total expenditure.

42. The available budget implementation statistics show that about 75 per cent of the estimated revenue was realized in 1985 and 72.3 per cent in 1986 as against 81.8 per cent in 1984. Such relatively high achievement rates have been due to average annual increase in customs revenue of about 11.2 per cent which followed the resumption of border trade with Nigeria. About 59.6 per cent of the estimated expenditure was implemented. Several financial appropriations were revised downwards during the financial years under review. It should be noted that since 1984, no budget line has been allocated for investment expenditure.

43. On the whole, the national budget showed a surplus of CFAF 7.7 billion in 1985 and CFAF 7.4 billion in 1986. This favourable situation is at the same time precarious, based as it is on external trade. Apparently, it does not take into account all the external payments obligations of the Government such as public debt which would have made for a CFAF 27.7 billion deficit in 1985 and a CFAF 28.1 billion deficit in 1986.

V. EXTERNAL TRADE, BALANCE OF PAYMENTS AND EXTERNAL DEBT

44. The latest available statistics on external trade cover 1981 and 1982. However, estimates based on customs revenue show a deepening of the trade deficit from CFAF 84.1 billion in 1985 to CFAF 91.7 billion in 1986 as against CFAF 64.2 billion in 1984. During the same period, the rate of coverage of imports by exports fell from 19.8 per cent to 19.6 per cent as against 28.3 per cent in 1984.

45. This pattern reflects the trend in export revenue which, after dropping by 18.1 per cent in 1985 as a result of the fall in revenue derived from such oil-seeds as palm fruit, palm kernels and sheanuts by about 16.3 per cent, went up by nearly 18 per cent in 1986. Export earnings for 1985 and 1986 therefore amounted to CFAF 20.7 billion and CFAF 22.4 billion respectively.

46. Imports continually declined from 1981 to 1984 before rising from CFAF 104.8 billion in 1985 to CFAF 114.1 billion in 1986. This upswing can be ascribed mainly to the purchase of capital goods for projects which began to be executed during the period under review and to the substantial inflow of consumer items meant for re-export that occurred from the time border trade with Nigeria resumed.

47. In 1985, the overall balance of payments deteriorated into deficit particularly because of: (i) the sharp decline in net non-monetary capital inflows; (ii) the slow-down in transit activities which adversely affected the services balance and, (iii) the stagnation in unrequited transfers. The deficit was expected to be about CFAF 6.1 billion in 1985. That figure should double in 1986.

48. Benin's external trade imbalance was also worsened up to 1985 by the growing burden of public debt. As of 31 December 1984, the total outstanding debt was estimated at CFAF 276.1 billion. Of this amount, 32.8 per cent was contracted by public and semi-public enterprises. The situation resulted from the commitments entered into in order to compensate for the loss of revenue from petroleum and to the levelling-off of resources derived from the special amortization tax at CFAF 7.5 billion. In 1986, there was a very slight shift in debt servicing of about 0.8 per cent: CFAF 47.3 billion or 23.7 per cent of export earnings went to service the debt in 1986 as compared to CFAF 47.7 billion or 31.5 per cent of the export earnings in 1985.

VI. SECTORAL PERFORMANCE

A. Food and agriculture

49. Averaging 45.7 per cent of GDP, the contribution of the rural sector to value added is broken down as follows: 71.8 per cent coming from agriculture, 21.9 per cent from animal husbandry and 6.3 per cent from forestry and fishing. In real terms, the average annual growth rate was 3.4 per cent.

50. During the peirod under review, farming conditions significantly improved with the return of normal rainfall. Cultivated land areas were accordingly extended and major integrated rural development projects initiated in the regions of Borgou and Zou. Production of the major food crops therefore increased substantially. For millet and sorghum, the 74,800 tons produced showed an increase of 31.9 per cent; for maize, the 400,300 tons produced reflected an increase of 42 per cent while for yams the yield of 657,400 tons represented an increase of 6.0 per cent. Production levels for the main industrial export crops were as follows: 88,000 tons for cotton (+95.5 per cent) and 73,600 tons for palm fruit and kernels (+43.2 per cent). Many infrastructural facilities have been set up to increase the degree of local processing of agricultural produce. A sugar complex has been built at SAVE, national ginning capacity is being strengthened while, among other things, a cotton/groundnut/sheanut oil complex has been built at Bohicon.

51. Despite a constant rise in domestic demand which led to substantial import substitution and the resumption of cattle importation from Nigeria, livestock production has followed a regular pattern. As much as 68.1 per cent of the needs were covered.

B. Industry

52. The value added of this sector which provided an average 9.1 per cent of GDP rose in real terms by 7.7 per cent in 1985 and 3.6 per cent in 1986 after a 44.4 per cent boom in 1984 following the beginning of petroleum drilling in 1983. The slow-down in business activity has occurred despite an improvement in supplies for those industries which process palm products and the rehabilitation of the SAVE sugar complex. The factors responsible are: (i) the lack of markets for the clinker and cement produced at ONIGBOLO (ii) the fall of the dollar and petroleum prices; and (iii) the management difficulties that the petroleum drilling company (PANOCO) has been experiencing.

53. Crude oil production went up by 11.1 per cent to 500,000 tons while the production of cakes and oils from palm fruit and kernels rose from 23,519 tons to 31,135 tons. The buisness turnover of SONICOG therefore increased by 4.7 per cent as against an increase of 21.2 per cnet for the textile and leather industries. Activities in other industries have been virtually stagnant. The prospects for growth in this sector are promising. Indeed, Benin has substantial deposits of marble (6 million tons), iron (266 million tons) and phosphates (5 million tons).

VII. IMPLEMENTATION OF THE SUBSTANTIAL NEW PROGRAMME OF ACTION

54. Benin submitted to its first donor roundtable a programme costing CFAF 600 billion for an investment period covering 1983-1987. Assistance pledges amounted to some CFAF 136 billion. The data available on external aid flows as of 30 June 1986 indicate total net disbursements of about $US282.9 million from 1983 to 1984. Of this amount, $US111.9 billion was disbursed in 1983 and $US171.0 million in 1984. Bilateral aid accounted for 37.5 per cent in 1983 and 23.5 per cent in 1984. This reduction was made in favour of non-concessional aid whose export-credit share rose from $US7.4 million to $US 68.6 million. DAC member countries remain the major sources of aid flows; 76.4 per cent in 1983 and 98.6 per cent in 1984 of total net disbursements. Official development assistance (ODA) accounted an average for 68.8 per cent of grant and 31.2 per cent of loans. Net disbursements for 1985 and 1986 were expected to have risen by 24.2 and 6.7 per cent respectively. The corresponding amounts are $US212.4 million and $US226.6 million respectively. In addition to the three-year economic recovery programme, sectoral follow-up consultations on the donor roundtable are being held.

VIII. MEDIUM-TERM PROSPECTS

55. The recovery effort being made should enable investment to pick up in 1987 and the downward trend in domestic savings to be reversed. The targets for each of these are 17.7 per cent and 0.4 per cent of GDP, respectively. The trade deficit would amount to some 18.3 per cent of GDP as compared 12.0 per cent in 1986. On the whole, GDP growth will decrease slightly by about 3.4 per cent. Similarly, with external public debt servicing amounting to $US94.0 million or 9.8 per cent of the earnings from the export of goods and services, the 1987 figure would decrease by 6.3 per cent as compared to 1986.

BOTSWANA

I. OVERALL GROWTH PERFORMANCE

56. According to official preliminary estimates real GDP grew by 19.4 per cent in real terms in 1983/84. Spearheading this growth was the mining sector which grew by 35.2 per cent. Although the growth rate of GDP is expected to decline significantly from the very high levels of 1983 and 1984, aggregate output grew at a satisfactory pace in 1985. This is partly attributable to the improved market conditions for diamonds with sales increasing by 13.2 per cent over the 1984 sales to reach US$1,823 million in 1985.

57. The downward trend in the rate of inflation observed in 1984 was reversed during 1985. As measured by the urban and semi-urban consumer price **index,** the year-on-year rate increased from 5.8 per cent in December 1984 to 10.5 per cent in December 1985. Annual inflation rates in 1985 is estimated at 8.7 per cent compared with 7.5 per cent in 1984. Price developments during 1985 were influenced mainly by rising import costs.

II. MAJOR DEVELOPMENT PROBLEMS AND POLICIES

58. Landlocked with 80 per cent of its trade dependent on South Africa (RSA), Botswana is acutely vulnerable to economic developments in RSA as well as the political tension in the Southern African sub-region. The country's landlockness renders it entirely dependent on its neighbours (RSA and Zimbabwe) for vital trade and communication routes and whatever disruptions on these links can seriously jeoparidize economic prospects. Foreign exchange earnings heavily depend on a narrow range of exports, notably diamond. Attempts at diversification is constrained by the relatively small domestic market which faces strong competition from more advanced neighbouring economies. The Pula was devalued by 15 per cent in early 1985 and had continued to weaken against major world currencies. These excahnge rate movements which greatly affected developments in the external sector, influenced the overall economic and financial conditions in Botswana in 1985/86.

59. Botswana's susceptibility to drought seem to be nurturing a permanent feature and its macro economic effects (on the balance of payments, and government revenue and expenditure) is quite significant. In particular, the impact of the drought on the agriculture sector which resulted into a substantial shortfall in domestic food supply and beef output had warranted the diversion of large foreign exchange earnings into increased food imports.

60. The Government's basic strategy under the National Development Plan (NDP 6) - 1985-1991, is to achieve rapid and large returns from capital investment in mining, and to reinvest same into productive activities so as to diversify the production base. Accordingly, the government has given the highest priority to productive employment creation and rural development. Agriculture is being rehabilitated and greater emphasis is placed on smaller mining and prospecting operations. The other areas of focus include the up-lifting of Botswana's entrepreneurs by providing credit, management and financial services and the dissemination of modern technical know-how.

III. EXPENDITURE ON GDP

61. Total consumption expenditure as a proportion of GDP increased slightly in 1985/86 due to the impact of South Africa's high rate of inflation on the Botswana economy. While public consumption remained relatively stagnant in 1985/86 compared to the previous years, private consumption as a percentage of GDP increased to around 60 per cent as against 55 per cent in 1984/85. Gross fixed capital formation at P270.9 million in 1983/84 reached P508 million in 1985/86 (at current prices) which is due to the heavy investment by the Government under NDP-6.

IV. PUBLIC FINANCE

62. An outstanding feature of the Government budget for 1984/85 and 1985/86 has been the simultaneous expansion of revenues, expenditures and Government cash balances. The growth in revenue was significantly higher enabling the Government to accumulate cash balances with the Bank of Botswana. Two key elements underline the budget proposals for fiscal 1986/87: (i) The continuing vulnerability of Botswana to natural hazards and external economic forces: (ii) The future circumstances in which the economy will operate since the projected rate of growth in expenditure is expected to be higher than those of revenues during the course of NDP6 because mineral revenues which have been the most buoyant element in overall Government revenues are expected to decline in real terms.

63. Total revenue in 1986/87 is estimated at P1,195 million an 18 per cent increase over the revised actual for 1985/86. Total expenditure is estimated at P902 million which is higher than the P878 million indicated in the budget and 17 per cent more than the incurred expenditures in 1985/86. Recurrent expenditures is estimated at P522 million of which salaries and wages will absorb P203 million and interest and debt payments another P28 million. Development spending is estimated at P316 million, up 15 per cent on the 1985/86 expenditures and P64 million in loans to parastatals. The overall budget surplus is estimated at p293 million.

V. EXTERNAL TRADE, BALANCE OF PAYMENTS AND EXTERNAL DEBT

64. In Pula terms exports rose from P880 million recorded in 1984 to P1,371 million in 1985. The surge in the Pula value of exports is partly explained by an increase in the US dollar value of diamond and nickel cooper-mate and by the sharp depreciation of the Pula in terms of major world currencies. Over the same period, the value of beef exports rose from P95 million to P102 million. However, throughput at the Botswana Meat Commission (BMC) dropped from 239,000 heads in 1984 to 220,000 heads in 1985 and consequently, BMC could only meet about 60 per cent of the country's 18,900 tonnes beef export quota to the EEC. Total imports is estimated to have grown by 27.6 per cent from p895 million in 1984 to P1,142 million in 1985.

65. The balance on services account continued to deteriorate from p135 million in 1983 to P241 million in 1984 and P310 million in 1985. However, following a good trade surplus and an increase in transfers, the balance on current account rose to P266 million in 1985 from 13 million recorded in 1984. The net inflow of capital is estimated at P210 million in 1985 compared to p144 million in 1984. The overall balance of payments surplus in 1985 reached P500 million from the low level of P165 million recorded in the previous year.

66. Total external public debt increased from P437 million in 1984 to P684 million in 1985 or in dollar terms, a 16 per cent increase from $280 million to $326 million. Government debt, including borrowing on lent to parastatals stood at P463 million in 1985. The debt service ratio rose slightly to 5.9 per cent in 1985 as compared to 5.7 per cent in 1984. Total foreigh reserves, excluding gold, is estimated at $909 million by mid-1986 which could provide an import cover for some two years.

VI. SECTORAL PERFORMANCE

(a) Food and Agriculture

67. Real agriculture value added on average declined by 8.9 per cent between 1979/80 and 1983/84 reflecting the impact of the drought. Food grain production was 19,000 tonnes in 1984/85 which, though double that of 1983/84 production, represented only about 10 per cent of Botswana's requirements. For 1985/86, cereal harvest is expected to show a substantial improvement with output estimated at 31,000 tonnes but this would still leave a grain shortfall of 160,000 tonnes to be met by food aid and commercial imports. Beef sales were down to 14,983 tonnes in 1985 as against to 18,700 tonnes in 1984, due to substantial reduction in throughput at BMC. As part of the government's efforts to promote arable agriculture, producer prices were significantly raised during the last 6 years. In 1985 the Government introduced the "Accelerated Rainfed Arable Programme". Under this scheme farmers are assisted to destump up to 10 hectares (at p50/ha), and hire drought power for ploughing (p50/ha), for row planting (p10/ha) and for weeding (p5/ha). Other supporting services include the provision of fertilizer; funding the erection of fences; water development and crop protection from pests. Brown locusts had reached plague proportions but the Government used specially equipped aircraft trucks and teams of chemical sprayers to battle the pests.

(b) Mining

68. The index of mineral production reveals that mineral output expanded by 17.4 per cent in 1984 but declined by 2.3 per cent in 1985. Diamond production declined from 12.9 million to 12.7 million carats. The world market for diamonds firmed in 1985 with sales of US$1,823 million an increase of 13.2 per cent over 1984. Total output of copper-nickel matte was approximately 52,000 tonnes in 1985. Production of coal also increased from just under 393,000 tonnes in 1984 to 437,000 tonnes in 1985. Botswana has an extensive coal reserves which, in some areas, have been proven to be suitable for power generation and the operation of the Central Power Station project at Morupule will boost coal exploitation and hence reduce electricity imports.

VII. IMPLEMENTATION OF THE SUBSTANTIAL NEW PROGRAMME OF ACTION

69. Botswana had opted for a UNDP Roundtable but no meeting has been convened to date. Based on official figures, Botswana's total estimated cost of its public investment programme (PIP) for 1986-1990 is $142.2 million of which available resources (domestic and external) anticipated during the period is estimated at $50.1 million leaving a resource gap of some $92.1 million to be funded by external aid. However, the net inflow of official development assistance to Botswana has been on the decline since 1980 while debt commitments (both concessional and commercial) have increased over the past six years. Although debt service payment are within manageable proportions, yet external assistance, particularly with respect to debt re-scheduling, would be required under NDP-6 in order to implement the PIP and to put the economy on a firmer base toward recovery.

VIII. MEDIUM-TERM PROSPECTS

70. According to official estimates, the annual average rates of growth of Real GDP during NDP-6 (1985-1991) is projected to be around 4.8 per cent which is lower than the average attained under NDP-5. This pessimistic estimate is on account of an expected slow growth in the mineral sector (an average of 31% of GDP under NDP-5) projected at 3.5 per cent per annum.(29.5 per cent of GDP under NDP-6). Notwithstanding the country's susceptibility to drought, agriculture (7% of GDP under NDP-5) is projected to post an annual average growth rate of 6.5 per cent under NDP-6 which is plausible depending upon the viability of the irrigation schemes which become operational in 1988.

BURKINA FASO

I. OVERALL GROWTH PERFORMANCE

71. The economic performance of Burkina Faso in 1985-1986 shows a clear upswing in growth following three years of recession. GDP (1980 prices) declined by an annual average of 3.5 per cent between 1982-1984. In absolute terms, GDP increased from CFAF 287.7 billion in 1985 to CFAF 305.1 billion in 1986 or an increase of around 6 per cent.

72. Despite strong population pressure, the good performance of the economy could be attributed to the step up in assistance to the rural areas in terms of increased resource concentration and higher producer prices; improvement in climatic conditions and gains made in building-and-public-works-related activities.

II. MAJOR DEVELOPMENT PROBLEMS AND POLICIES

73. The recent restucturing efforts made by Government of the country have laid the basis for easing the major constraints to the economic and social development of Burkina Faso. Among the major developmental problems facing the country are: the vulnerability of the agricultural sector to the vagaries of the weather; the low level of productivity resulting from traditional farming methods; high population pressure on cultivable land and; the near-total dependence of the country on the cotton industry. Farmers purchasing power remained low despite the increase in the producer prices of the major crops. There is also a drift from the rural areas despite the incentives given to reverse the situation.

74. External trade continues to be adversely affected by the landlocked nature of the country. The narrow revenue base also makes it difficult for the Government to substantially increase the volume of its resources needed for investment. Quite a number of industrial enterprises ran into supply difficulties both in terms of raw materials and energy.

75. The Government's remedial action had as its priority for 1984-1985, social rehabilitation and economic recovery under the people's development programme which was costed at CFAF 160.7 billion. Most of the planned investment was devoted to community facilities for collective use and production equipment: school and university infrastructures were expanded, the intake capacity of health centres were increased as were transport and communications infrastructures. Many more distribution and marketing structures were set up and production capacity increased. The plan was implemented within a decentralized framework with effective participation of local people in the identification, selection, implementation and financing of projects.

76. Since 1986, a five-year development plan has been in effect. The priorities of the plan are to: (i) upgrade food availability by increasing local production and processing; (ii) develop power production through the Kompienga dam and the water schemes of the Bagre region; and (iii) open up the country through the trans-Sahelian railway. One of the main aspects of the agricultural policy is to encourage the more rational use of fertilizer in the production of such cereals as sorghum.

III. EXPENDITURE ON GDP

77. During 1985-1986, the share of the main components of demand, expressed as a percentage of GDP, remained stable. The average was 17.9 per cent for public consumption; 99.1 per cent for private consumption and an average investment rate of 9.5 per cent. The chronic lack of savings noted during the period led to substantial recourse to foreign financing both to sustain the level of consumption and to cover the volume of investment. Such financing was the equivalent of approximately 26.5 per cent of GDP per year.

78. In real terms, the various aggregates picked up with average annual growth rates of +4.5 per cent for private consumption (as against 0.8 per cent from 1980 to 1984), +4.3 per cent for public consumption (as against -1.3 per cent) and +9.0 per cent as against -6.3 per cent for the resource deficit. The commencement of certain major infrastructural construction works, coming under the five-year development plan, raised capital formation from CFAF 12.0 billion in 1985 to CFAF 24.8 billion in 1986.

IV. PUBLIC FINANCE

79. The latest data available is on the 1985 budget. They indicate that revenue collected amounted to CFAF 13.2 billion, an increase of 16.2 per cent compared to 1984. Budgetary income for 1985 and 1986 were calculated at CFAF 70.4 billion and CFAF 82.3 billion respectively. Of this amount, 75.9 per cent on average comes from fiscal revenue. Over the same period, current expenditure rose by 13.2 per cent from CFAF 67.6 billion to CFAF 76.5 billion while capital expenditure declined from CFAF 9.9 billion to CFAF 5.8 billion. The estimated deficit for 1985 was CFAF 7.1 billion financed from external resources backed up with inputs from State agencies and remittances from nationals working abroad.

V. EXTERNAL TRADE, BALANCE OF PAYMENTS AND EXTERNAL DEBT

80. The pattern observed from 1982 to 1984 when the trade balance diminished was reversed from 1985 onwards with a trade deficit which rose from CFAF 128.6 billion to CFAF 157.7 billion in 1986 as against CFAF 87.9 billion and CFAF 76.4 billion in 1983 and 1984 respectively. The rate of coverage of imports by exports which had been as much as 31.3 per cent in 1984 fell to 18.8 per cent in 1985 and then to 14.8

per cent in 1986. These trends can be ascribed to an average annual decline in export earnings of approximately 11.4 per cent resulting in particular from the fall in cotton prices (which accounted for 55 per cent of export earnings) and the reduction in deliveries of sheanuts. Imports, dominated by food products and capital goods, increased on average by nearly 29 per cent per year under the impulse of the growing grain deficit and the commencement of major infrastructural construction work on dams and railways.

81. According to the preliminary estimates, the external payments deficit which had declined to CFAF 1.8 billion in 1985 worsened in 1986 to as much as CFAF 87.7 billion. Such deterioration is due to the deficit in the merchandise trade balance which widened by 17.8 per cent (from CFAF 74.5 billion in 1985 to CFAF 87.7 billion in 1986) while the services balance rose from CFAF 48.0 billion to CFAF 51.8 billion.

82. The current account balance had deteriorated sharply because unrequited transfers which stood at CFAF 96.0 billion in 1985 and CFAF 100.4 billion in 1986 covered, on average, only 75 per cent of the deficit in the goods and services balance. Over the same period, net capital flows virtually stagnated at an average annual level of CFAF 25.8 billion with an average growth rate of only 0.6 per cent per year.

83. These imbalances in the external payments position has been worsened by a growing public debt. Total external indebtedness is at $US 700 million in 1984 increasing to $US 847.9 million and $US 978.8 million in 1985 and 1986, respectively. Debt service payments rose from $US 35.8 million in 1984 to $US 44.0 million in 1985 increasing to $US 39.8 billion in 1986.

VI. SECTORAL PERFORMANCE

A. Food and Agriculture

84. Agriculture is the dominant sector in the Burkina Faso economy contributing an average of approximately 46.8 per cent of GDP annually. Value added in real terms increased from 5.1 per cent in 1985 to 9.4 per cent in 1986. This favourable performance resulted from the improvement in climatic conditions which made it possible to increase areas under cultivation and to increase the use of agricultural inputs. Marketable production increases have been +11.2 per cent for seed cotton; +75.7 per cent for sesame seed and +4.2 per cent for sugarcane.

85. For food crops, the improvement in production conditions has been backed up with the raising of producer prices and increase of financial resources of the national grain board (OFNACER). However, the grain deficit widened by 38 per cent during the 1984-1985 farming season as a result of the 1.8 per cent drop in millet and sorghum production. Livestock population had been depleted through the widespread slaughtering carried out in 1984 in order to limit losses from the drought. The earnings, livestock sub-sector continues to be an important source of foreign exchange, bringing in about 24.7 per cent of export revenue.

B. Industry

86. The contribution of the industrial sector to GDP averaged 18 per cent with an average annual growth rate of 9.1 per cent. This trend could be attributed to those manufacturing industries that benefitted from the improvement in agricultural recovery. Textile and sugar industries had a turnover increase of 14.3 per cent and 4 per cent, respectively. Together with the substantial gold deposits that exist, the reactivation of the Poura gold mine offers favourable prospects for the development of extractive industries. As to the building and public works sector which accounted for about 13.5 per cent of industrial value added, the growth rate came to 9.2 per cent per year with the commencement of construction work on the Kompienga dam, the trans-Sahelian railway and a new community housing programme.

VII. IMPLEMENTATION OF THE SUBSTANTIAL NEW PROGRAMME OF ACTION

87. Burkina Faso will hold its first roundtable meeting with donors during the first quarter of 1987. Using the latest figures on aid received since 1981, it would appear that net total disbursements from 1981 to 1984 totalled $US 810.7 million or an annual average of $US 202.7 million. Bilateral aid accounted for about 71 per cent of total aid with as much as 99.4 per cent of it coming from DAC member countries. Total official development assistance (ODA) amounted to $US 774.1 million. Annual flows of this type of assistance have however been declining by 6.9 per cent per year.

88. Net flows of multilateral aid which accounted for approximately 29 per cent of total aid averaged some $US 58.7 million per year. It also decreased from 1981 to 1983 by 1.4 per cent per year. All in all, cumulative overall commitments decreased by 15.4 per cent particularly with the writing off of the unconsolidated portion of certain loans. ODA provided to Burkina Faso consisted of 77.5 per cent grants and 22.5 per cent loans.

VIII. MEDIUM-TERM PROSPECTS

89. Should the social restructuring and economy recovery efforts be sustained and good climatic conditions continue to prevail, the GDP growth rate in real terms should rise in 1987 by about 4.6 per cent. The situation of trade with the outside world will remain unfavourable with a trade deficit rising by 4.6 per cent. The resource transfer expected after the donor roundtable should make it possible to restore the balance in current payments.

BURUNDI

I. OVERALL GROWTH PERFORMANCE

90. Burundi's Economic Recovery that was signalled in 1984, when coffee earnings rebounded strongly from the 1983 depressed world prices, was maintained in 1985 though under severe pressure on resources for external payment obligations. In real terms, the overall GDP grew by 6.2 per cent in 1985. The main stimulus came from the agriculture sector which grew by 7.5 per cent in real terms in 1985. The service sector also contributed moderately to the good performance but the manufacturing sector continued to perform poorly, mainly as a result of a fall in value added by wood, paper, chemicals and construction industries.

91. There was a slight upward movement in consumer prices in 1984 partly explained by the devaluation of the Burundi franc in November 1983. On the whole, the rate of inflation, which ran an average 12.4 per cent between 1973-1983, declined markedly to 3.7 per cent in 1985 as a result of the government's austerity measures to redress the imbalances in the economy.

II. MAJOR DEVELOPMENT PROBLEMS AND POLICIES

92. The Burundi economy is predominantly agricultural having the second highest population density in Africa; an extremely weak infrastructure and narrow government revenue base. The economy is overdependent on coffee which accounts for 85 per cent of export earnings, 10 per cent of GDP and 25 per cent of government revenue. Gross imbalances emerged in the economy in 1983, when low world coffee prices coupled with unfavourable weather conditions engendered a cut in domestic coffee production by almost 20 per cent resulting into a drastic reduction in foreign exchange earnings. Debt service had swelled from 6 per cent of export earnings in 1981 to about 20 per cent in 1985. The drain on foreign reserves had cut import cover to just one month.

93. To redress these problems, the government had requested the assistance of the IMF and IBRD to work out an economic restructuring package designed to tackle the country's over-dependence on coffee earnings, reverse the deteriorating trend in GDP growth and tackle the debt service repayment obligations. The Economic Recovery Programme (ERP) focuses on measures for medium-term restructuring to diversify away from coffee as well as restore short-term equilibrium in the balance of payments. Annual increases in producer prices have been introduced along with a more flexible exchange rate management (the Burundi Franc was devalued by 15 per cent against the SDR in July 1986) and stringent control in public sending. Other measures include adjustment of interest rate to adequately reflect domestic credit conditions and a review of the investment code to creat a more market-oriented economic environment.

94. The fourth development plan (1983-1987) calls for total investment of Bufr 107.4 billion (at 1981 prices), 55 per cent of which is expected to be financed from external sources. Investment of Bufr 24.2 billion is envisaged for the agricultural sector (23%) and Bufr 19,4 billion for the industrial sector. The aim is to exploit the inter-linkages between the two sectors through agro-based industrial activities such as the planned US$30 million sugar refinery at Rutana in the South.

III. EXPENDITURE ON GDP

95. In 1985, total final consumption represented about 97.6 per cent of GDP in real terms, a slight improvement compared to the 1984 level of 98.1 per cent. Government consumption expenditure increased by 15.7 per cent while private consumption rose by 4.6 per cent in 1985. Gross fixed capital formation decreased from US$191.1 million in 1984 to US$164.5 million in 1985 which is evident of the decline in the investment rate from 18.6 to 16.6 per cent.

IV. PUBLIC FINANCE

96. The overall budget for 1986 was set to Bufer 20,029 million. A balanced budget is anticipated since revenue is estimated to grow by 11.5 per cent while expenditure will increase at a lower rate of 5.6 per cent relative to the 1985 figures. The growth in revenue is heavily dependent upon the expectant higher export receipts that would accrue as a result of the prevailing favourable world market condition for coffee and the suspension of the ICO export quotas. The development budget is set to Bufr 3.5 billion, a low level since 1979. This budget will be financed by borrowing from the Central Bank: 57.1 per cent, from other institutions: 14.3 per cent, and from capital subscription to development banks.

V. EXTERNAL TRADE, BALANCE OF PAYMENTS AND EXTERNAL DEBT

97. Exports increased by 16.1 per cent from US$144 million in 1984 to US$167.2 million in 1985 while imports grew by 2.9 per cent to reach US$324.7 million in 1985. This trend led to a substantial improvement in the trade deficit occasioned by higher coffee receipts whose export tonnage rose from 21,643 to 24,482 tons.

98. Projections for 1986 show that coffee revenue will continue to rise implying increased foreign exchange earnings and a substantial reduction in the trade deficit, provided that import restraint continues. Besides the chronic trade deficit since 1980, Burundi still faces a constant outflow on services, but the 1983 and 1984 surpluses on the capital account were more than sufficient to offset the deficit on the current account of the balance of payments.

99. By end-1985, total disbursed public debt outstanding had reached US$390 million, 32 per cent of which is owed to the World Bank. A vast majority of the loans were acquired on concessionary terms. On the basis of commitments to end-1984, average debt service is estimated at 31.3 per cent up to 1986 and 34 per cent between 1986-1989.

VI. SECTORAL PERFORMANCE

A. Food and Agriculture

100. The agriculture sector still remains the backbone of the Burundi economy employing about 95 per cent of the labour force and accounting for 85 per cent of export earnings. Nonetheless, only about 25 per cent of the total land area is under cultivation, of which 90 per cent is devoted to subsistence food crops and the rest to cash crop, mainly coffee. Domestic food production is still not sufficient to meet the country's requirement and the government continues to import substantial amounts of cereals. The most important food crops are bananas, pulses, sorghum, maize, rice, cassava and sweet potatos. Production of cash crops was quite encouraging in 1985 as coffee output increased from 26,163 tons in 1984 to 40,000 tons; tea from 3,445 to 4,100 tons and cotton (lint) from 6,532 to 7,150 tons.

B. Manufacturing Industry

101. The manufacturing industry which accounted for 8.4 per cent of GDP in 1986 is characterized by light consumer industries, notably in food processing. The government's industrial policy consists of exploiting the inter-linkages between the primary and secondary sectors through the establishment of agro-based industries and the creation of an investment climate that would attract foreign private investment. The major obstacles to industrial development remain the inadequate level of investment and the acute shortage of foreign exchange to import raw materials.

VII. IMPLEMENTATION OF THE SUBSTANTIAL NEW PROGRAMME OF ACTION

102. The Second Round of donor's meeting was organized by the government in 1984 at which donors agreed in principle to assist in providing the external resource requirements for the country's public investment programme which is part of the Five Year Plan (1983-1987). By end-1985 the External Financing Component, 56 per cent of the total cost of the investment programme, had not been completely realized. Under the UN-PAAERD (1986-1990), Burundi's Financing Requirements for its National Recovery Programme is estimated at US$912.4 million, of which US$584.2 million is the estimated likely available resources expected to come from external sources. This leaves a resource gap of US$328.2 million.

103. Between 1981-1984 external aid to Burundi from OECD and OPEC increased by an average of 5 per cent. The principal source of aid is the EEC which had earmarked ECU 108 million under Lomé III to be expended as follows: ECU 86 million in grant, ECU 10 million in soft loans and ECU 12 million in risk capital ventures.

VIII. MEDIUM-TERM PROSPECTS

104. The firmness of world coffee prices in 1986 had contributed immensely to forstering the economic recovery that was started in 1984. The suspension of the ICO quota system and a continued up surge in world coffee prices is expected to boost Burundi's export earnings performance and create a positive impact on overall GDP grwoth. However, according to ECA preliminary estimates, real GDP, estimated to post a growth rate of 3.3 per cent in 1986, is projected to drop to 2.1 per cent in 1987.

CAPE VERDE

I. OVERALL GROWTH PERFORMANCE

105. Cape Verde has maintained a positive real growth rate and a high level of investment in spite of its limited natural resources and the persistent drought. GDP at 1980 prices increased by nearly 4 per cent, from $US 78 million in 1984 to $US 81 million. This performance is attributable to massive external aid which helped to reduce the balance-of-payments deficit and to a cautious management of national resources. The economy is dominated by services (trade, transport and administration) which account for approximately 42.3 per cent of GDP. The rural and the secondary sectors contribute 24.6 and 22.4 per cent, respectively, of value added.

II. MAJOR DEVELOPMENT PROBLEMS AND POLICIES

106. The insularity of Cape Verde, the wide dispersion of its territory over about ten rocky arid islands unfit for cultivation, the great distance separating it from the continent and its sahelian climate are all natural handicaps difficult to surmount for such a small country having no natural resources. Its climate is such that the country is exposed to persistent cycles of drought. The rocky nature of its soil and the irregular rainfall both limit the agricultural potential and hence the country is faced with a chronic food deficit which has to be offset by ever-increasing food imports.

107. Furthermore, Cape Verde is facing serious distribution problems due to the dispersion of the territory and to numerous bottlenecks due in particular to inadequate infrastructure and transport equipment. These constraints hamper trade between the various islands and with the outside world. The overall budget balance has been in constant deficit since 1980. Likewise, the trade balance is characterized by increasing deficits but these are more than compensated by remittances from nationals working abroad, transfers and grants.

108. Most of the measures taken to solve the above-metnioned problems are contained in the first development plan, 1982-1985 whose main objective was to develop socio-economic infrastructures. The bulk of the investments will benefit the rural sector, transport, communications, health and education. Industry and services are expected to spearhead the expected growth. The plan does not, however, give agriculture an essential role in overall economic growth.

109. Originally, total spending under the plan was expected to amount to C.V.Esc. 22.1 billion at 1982 prices. According to the latest revised estimates, expenditures

incurred for the first three years of the plan were estimated at C.V. Esc. 11.3 billion at 1982 prices. The growth targets in the plan include a 12 per cent growth of GDP and an 11 per cent contribution by the manufacturing sector to GDP. The Government adopted a policy of financing regular expenditure from internal revenue without resorting to domestic bank borrowing and limiting capital expenditure to projects likely to be financed by external concessional loans. During 1986, a new plan was prepared to build on the performance of the previous plan.

III. EXPENDITURE ON GDP

110 Gross domestic expenditure increased in real terms by 5.7 per cent in 1985. A review of the structure of total expenditure reveals two main characteristics of the Cape Verde economy. The first is linked to total consumption and gross capital formation which are unusually high compared to GDP. In 1985, as in 1984, total consumption was 25 per cent higher than GDP. Gross fixed capital formation was more than 46 per cent of GDP in 1985. Consumption and investment increased by 4.8 and 8.4 per cent respectively. The second aspect has to do with the dependence of the country on remittances from nationals working abroad and on foreign aid to offset its considerable deficit and maintain consumption and investment at a higher rate than domestic production.

IV. PUBLIC FINANCE

111 Public finance in Cape Verde consists mainly of the regular budget of the central administration featuring the expenditure for the fiscal year and the capital budget which accounts for public investment. With the introduction of the 1982-1985 development plan, the regular budget was either slightly in excess as it was in 1982 and 1983, or balanced as it was in 1984. The overall 1985 budget amounted to C.V. Esc. 7,541 million made up of C.V. Esc. 2,249 million in recurrent revenue and C.V. Esc. 5,292 million in grants. Expenditure was C.V. Esc. 8,832 million out of which C.V. Esc. 2,289 million was recurrent expenditure was C.V. Esc. 8,832 6,543 million was capital expenditure and investment. The result was an overall deficit of around C.V. Esc. 1,291 million.

V. EXTERNAL TRADE, BALANCE OF PAYMENTS AND EXTERNAL DEBT

112. From 1980 to 1984, exports declined from C.V. Esc. 366 million to 270 million while imports rose from C.V. Esc. 3,239 million to 7,300 million. The trade balance deficit increased steadily during the period, from C.V. Esc. 2,873 million in 1980 to 7,030 million in 1984. In 1985, there was a marked improvement and according to initial available estimates, the deficit fell to around C.V. Esc. 3,633 million. The current account balance has benefitted from the positive balance of the services

account and unrequited transfers which have on average covered more than 50 per cent of the trade balance deficit. According to available information the current account balance was C.V. Sec. 1,243 million in surplus during 1985.

113 The outstanding external debt of Cape Verde decreased from US$112.2 million in 1984 to US$108.9 million in 1985. Debt service was stablized around US$2.7 million per year or 19 per cent of export earnings.

VI. SECTORAL PERFORMANCE

A. Food and Agriculture

114. The agriculture sector contributes an average of 24.6 per cent to GDP. The uncertainities of the climate and the lack of arable (amounting to less than 10 per cent of the total land surface area) are serious obstacles to agricultural development. The main crops are maize, beans, sweet potatoes and bananas. In 1985, the rainy season was somehow normal. The recovery in food crops was however weak and food requirements was estimated at 660,000 tons.

115. Fisheries contribute 5 per cent to GDP but they are handicapped by inadequate means of production. The potential is however enormous and is estimated at 50,000 tons per year whereas the present catch is only 9,000 tons. Cape Verde derives approximately 70 per cent of its export earnings from fishing. The value added from livestock represents approximately 4.7 per cent of GDP but this sector also suffers from the effects of the drought. There were heavy losses in 1983 and in 1984. In 1985, there was a slight improvement in the reconstitution of the herds.

B. Industry

116. The most important activity in this sector is the extraction of salt, pozzolana and gypsum. Overall, the contribution of such industries to the economy of Cape Verde is very modest (around 0.2 per cent of GDP). The limited size of the market, the lack of natural resources and qualified manpower are major obstacles to the industrial development of Cape Verde. The contribution of the existing manufacutring industries (fish refrigeration, beverages and textiles) which was around 2.4 per cent of GDP has not improved since 1983.

C. Tertiary Sector

117. The tertiary sector accounts for the bulk of the economic activities of Cape Verde with 53 per cent of GDP in 1985 and a real growth rate of around 5 per cent. The development of transport, communications, tourism and trade was one of the priorities of the 1982-1985 development plan.

VII. IMPLEMENTATION OF THE SUBSTANTIAL NEW PROGRAMME OF ACTION

118. Within the framework of the implementation of the Substantial New Programme of Action, Cape Verde organized a second roundtable with its development partners from 30 November to 3 December 1986. This meeting provided an opportunity to evaluate the implementation of the first national development plan and to submit the second plan for 1986-1990 to the donors. The implementation of the first plan was satisfactory since 67 per cent of financing was mobilized; annual GDP growth was 5.2 per cent and the overall trade balance was positive.

119. Growth objectives for the second national development plan are as follows: 5 per cent annually for GDP and 4 per cent for public investment. The investment programme amounts to $US530 million out of which 90 per cent is expected from external assistance. In terms of commitments, the external assistance requested represents an annual inflow of around $US95 million. Priority sectors are rural development and transport which are to absorb 51 per cent of the investments and the social sector which will receive 15 per cent of the resources. The donors present at the second roundtable have pledged to keep their contribution at least at the same level as for the 1980-1984 period. This should bring in at least $US298 million or an annual inflow of US$74.5 million.

120. Emphasis was also put on establishing follow-up and evaluation mechanisms to bring about better co-ordination of the assistance and sustained co-operation among the different funding sources. Thus, UNICEF will organize a co-ordination meeting of non-governmental organizations operating in Cape Verde while the EEC, the WFP, the United States of America, UNIDO and FAO have been designated as lead agencies of a follow-up and co-ordination group for human resources, food assistance, agriculture, administrative reform, industry and fishing, respectively.

VII. MEDIUM-TERM PROSPECTS

121. The budgetary and monetary policy followed by the Government during the past years has made it possible to achieve satisfactory results in the overall balance of payments and public finance. Likewise, the country projects the image of a small developing country which in spite of its limited natural resources and serious structural constraints has been able to make effective use of the foreign assistance it received. In 1986, the GDP growth rate was expected to be in excess of 6 per cent.

CENTRAL AFRICAN REPUBLIC

I. OVERALL GROWTH PERFORMANCE

122. Economic recovery in Central African Republic which started in 1984 continued to be sustained in 1986 despite the financial constraints, especially the persistent budget deficits, and the heavy debt service obligations. According to provisional estimates, GDP (at market prices) recorded a growth rate of 3.3 per cent in real terms in 1986, compared to a 2.9 per cent increase in 1985. Although the population growth posted an average annual rate of 2.5 per cent during 1980-1985, GDP per capita is estimated to have increased by 0.[illegible] per cent in 1986, presumably due to the positive results of the economic recovery programme undertaken during 1982-1985.

II. MAJOR DEVELOPMENT PROBLEMS AND POLICIES

123. The economy of the Central African Republic is predominantly agricultural the sector contributing an average of 42 per cent of GDP. But the low population density, estimated at 4 inhabitants per Km², the irregular supply of essential inputs (notably fertilizers), marketing difficulties; insufficient funding of agricultural undertakings make it difficult to exploit the full potential of the agricultural sector and thus constitute a major set back to economic performance. Being land-locked, Central African Republic has no direct access to the sea and hence the very high transport cost limits the competitiveness of the country's products in international markets.

124. The economy is also in a dire financial situation largely as a result of the mounting external debt burden estimated at $398 million at end-1986 and the associated unmanageable debt service obligations which takes up about 31 per cent of export earnings. The collapse of world cotton prices (a major export earner) in 1985 seriously jeopardized the country's foreign exchange earning capacity and intensified an already worsening external payments position. Along with this poor showing in the external sector, the economy continues to be plagued by a persistent budget deficits which had increased the Government's reliance on external funding for recurrent expenditures and an unavoidable recourse to the domestic banking system to augment budgeted revenues.

125. In July 1986, the Government adopted a 16 month economic recovery programme and a policy package that is supported by use of IMF stand-by credit of $15 million and an IBRD structural adjustment loan of $30 million (IDA credits of $16 million and $14 million from the Bank's special facility for Sub-Saharan Africa). The main aim of the programme is to stimulate faster growth by giving priority to agriculture and progressively liberalize the economy.

126. The overall goals include increasing public and private domestic **savings**; reducing the role of the public sector to providing basic infrastructure and social services thus increasing private sector initiatives in productive activities. Specific measures will entail: improvement of public investment programming; tight control on public borrowing; and the reduction of subsidies to farmers which coincides with a substantial increase in producer prices in 1986. In macro terms, these measures are expected to foster an annual increase in real GDP of around 4 per cent which would yield a slight positive growth rate in per capita terms.

III. EXPENDITURE ON GDP

127. Total consumption represented about 90 per cent of GDP in 1986. Provisional Official estimates indicate a 3 per cent drop in public consumption on average during 1980-1985. However, a slight increase of 0.8 per cent was recorded in 1986. Private consumption continued to increase at a rate higher than GDP (2.2 per cent per annum in 1980-1985). Gross fixed capital formation which represented 15.9 per cent of GDP in 1986 increased by 7.4 per cent. The resource gap, representing 5.9 per cent of GDP, was financed largely from external borrowings and grants.

IV. PUBLIC FINANCE

128. With revenue at CFA 43.5 billion and actual expenditure estimated at CFA 45.3 billion, the 1986 budget ended up with a deficit of CFA 1.8 billion which was financed by French subventions to the budget, IMF Resources, STABEX compensation Funds and borrowings from the domestic banking system.

129. In 1987, the budget envisages total expenditures of CFA 54.6 billion up 21 per cent on 1986, with Revenue at CFA 46.2 billion. The overall budget deficit is projected at $8.4 billion, and as in 1986, the Revenue gap would be met by external sources, including the IMF, IBRD and Bilateral aid. The budget aims at combatting tax, mining and customs fraud as well as misallocation of external aid and grants.

V. EXTERNAL TRADE, BALANCE OF PAYMENTS AND EXTERNAL DEBT

130. The decline in exports of the main agricultural commodities (cotton, coffee, timber and tobacco) was, to a large extent, offset by increases in export of mining products (diamond exports rose by 5 per cent and gold by 2.2 per cent) in 1985. Consequently total exports increased by 12.8 per cent in 1985 while imports increased by 5.4 per cent. Thus, the trade deficit improved markedly from CFAF 11.1 billion in 1984 to CFAF 9.0 billion in 1985. On the whole, the

deficit on the current account was moderated by transfers and movements on the capital account, which, combined with external aid and borrowings, led to an overall balance of payments deficit of CFAF 6.3 billion in 1985 as against a surplus of CFAF 7.1 billion in 1984. In 1986, the balance of payment is estimated to record a surplus of CFA 2.6 billion.

131. At end-1985, the total public sector external debt outstanding (disbursed) amounted to US$289.7 million but had grown to an unofficially estimated level of $390 million by end-1986. Borrowings on concessional terms account for 30 per cent of the debt and non-concessional (commercial) about 39 per cent. The remaining is short-term debt consisting of IMF advances and payment arrears and other obligations to multilateral institutions. Debt service, including repayments to IMF, amounts to [illegible] per cent of export earnings. Total external debt represents about 43 per cent of GDP which implies a heavy burden on the economy of the Central African Republic.

132. At a Paris club negotiation the country's major creditors agreed to re-schedule 95 per cent of repayment (about $36 million) due by July, 1985 and December, 1986, over a ten year span including a five-year grace period.

VI. SECTORAL PERFORMANCE

A. Food and Agriculture

133. Agriculture remains the main activity of the country providing a livelihood for 80 per cent of population, accounting for 42 per cent of GDP and 41 per cent of export earnings. Between 1980 and 1985, food production increased by only 1.7 per cent per year due to the drought conditions. Production of cassava, the main staple, increased by a mere 0.1 per cent from 257 000 tons in 1980-81 to 259 000 tons in 1984-85. Groundnut output reached 81 000 tons in 1984-85 compared to 76 300 tons in 1984-85. Other food items (maize, millet sorghum and rice-paddy) also performed poorly. However, cash crop production was satisfactory, increasing by an annual average of 2.2 per cent to 45 516 tons in 1984-85 in response to a favourable producer price incentive policy adopted by the government as well as improvement in extension services. Coffee output attained 14 700 tons in 1984-85, which is still below the 1980-81 level of 15 700 tons, despite the rise in producer prices.

134. The livestock potential is enormous with the animal population estimated to be: 2 million heads of bovines, 80 000 ovins, 1 million caprins, 100 000 sheeps and goats, and 400 000 pigs. Slaughtered [illegible] in 1985 totalled 40 000 tons while catches of river fish amounted to 15 000 tons. The World Bank has approved an IDA loan of $11.9 million for a [illegible] livestock project designed to develop a viable institutional framework, reduce herd disease and over grazing, and to increase livestock output. The credit covers 32 per cent of the total project cost of $27.3 million.

135. Forest cover approximately 34 000 km^2 (3.4 million ha.) in the southwest of the country and timber exports, predominatly sapele, are a vital source of foreign exchange. Nonetheless, production decreased by 3.1 per cent per year from $325.100m^3$ in 1980 to $268.700m^3$ in 1985 leading to a substantial decline in timber exports from $127.600m^3$ to $64,800m^3$, partly due to the lack of adequate investment as the timber companies suffered heavy financial losses as a result of high transport costs.

B. Mining

136. In mining, diamond production amounted to 353 500 carats in 1985 of which 342 900 carats were exported. Gold production was 248.7 kg. in 1985 against 235 kg. in 1984. The uranium company, ALUSUISSE, has suspended operations of the joint venture company URCA until an exploration project started in 1980 is completed to establish the viability of exploiting an estimated 20 000 tons of uranium deposits.

C. Manufacturing

137. The manufacturing sector is relatively small contributing about 7.8 per cent of GDP in 1985. It consists mostly of semi-processing and assembly operations including spare parts production, and other light consumer industries. The government had decided to de-nationalize several establishments and hand them over to the private sector. Overall, manufacturing industries are operating at an average of 50 per cent below their installed capacities, mainly because of poor management, low demand for manufactured products, high transportation costs for raw materials and inputs and shortage of energy.

VII. IMPLEMENTATION OF THE SUBSTANTIAL NEW PROGRAMME OF ACTION

138. The government launched a **five** year plan (1986-1990) in 1986 whose objectives include: a projected GDP growth rate of 3 per cent per annum; public investment expenditures to grow at annual rate of 5.5 per cent and to stabilize at around 15 per cent of GDP at the end of the plan period; restore equilibrium in the balance of payment through increases in exports by 2 per cent while reducing imports by 2.4 per cent annually; and increasing the country's financing capacity by maintaining the growth of private consumption at 1.3 per cent and that of public consumption at 1.4 per cent.

139. All the above policy measures and strategies to attain the Plan's objectives are in line with objectives of the SNPA. In support of the plan including the public investment programme and other reform measures, the government's total funding requirement over the period, 1986-1990, is estimated at $675.2 million,

of which, $399.7 million may be available depending on the realization of both domestic and external commitments of $71.2 million and $328.5 million, respectively. This leaves a funding gap of $275.5 million. Based on the Government's dire financial needs in the face of pressures to meet its external financial obligations, it is anticipated that bilateral donors and multilateral financing institutions should supplement whatever meagre resources that may be raised internally. A UNDP Roundtable meeting with donors is planned for 1986 and provides a forum for firm commitments to support the national plan.

VIII. MEDIUM-TERM PROSPECTS

140. Economic growth and development prospect is likely to be impaired in 1987-1988 if agricultural production does not recover to at least levels attained in 1980/81. There are encouraging signs in the trend of world demand and prices for diamond and gold (major export commodities) and with the favourable turn around in world cotton prices in 1986, the country's foreign exchange earnings will improve substantially. Despite a projected surplus in the balance of payment, provisional estimates indicate that real GDP will decelerate to 2.6 per cent in 1986 as against 3.3 per cent attained in 1986 but a Rebound is expected in 1988 with an estimated 3 per cent growth rate which meets the planned annual rate of increase in GDP during 1986-1990.

CHAD

I. OVERALL GROWTH PERFORMANCE

141. Economic performance in Chad has been dulled in recent years because of disruption caused by the Civil War which, combined with the vagaries of weather conditions, especially the 1982-1984 drought, had precipitated a severe economic crisis underlined by mounting external debt obligations, decling output in all sectors and worsening balance of payment position.

142. In 1984, GDP declined by 5 per cent as a result of the impact of the drought on agriculture. The returns of the rains in 1985 fostered a semblance of economic recovery as agricultural production picked up leading to a real GDP growth of around 9 per cent. However, cotton export shortfalls, due to a significant drop in domestic production and low world demand and prices, had eroded the foreign exchange earning capacity of the country culminating into a substantial cut-back in essential imports and reinforcing an acute inflationary pressure in the economy.

II. MAJOR DEVELOPMENT PROBLEMS AND POLICIES

143. Chad is predominantly agricultural relying extensively on cotton as the main cash crop which accounts for well over 80 per cent of total export receipts. The effects of the drought had engendered a 34 per cent drop in cotton production in between three growing seasons starting 1983/84. This, combined with the slump in world demand for cotton and considerable decline in prices in 1985 had severely damaged the local cotton industry and hence the economy. Concomittant with these developments is the growth in money supply which increased significantly from CFA 55.1 million in 1984 to CFA 76.9 million in 1985 due to an expansion in domestic credit, notably the increased recourse of the government to the banking system to finance the persistent budget deficits.

144. To redress these problems, the government's national recovery programme lays emphasis on rehabilitating the productive sectors, particularly agriculture, as evidenced by the increased budgetary allocations to the cotton industry. Producer prices have been increased as an incentive to boost agricultural production. Public expenditure is also under close scrutiny as part of the austerity measures. The 1985 Donor's meeting provided an opportunity for an understanding of Chad's economic policy initiatives and the external assistance requirements.

III. EXPENDITURE ON GDP

145. A very stricking feature of expenditure pattern in relation to total available resources is that total consumption has been consistently higher than GDP since 1982. As a proportion of GDP, total consumption rose from 109.5 per cent to an estimated 119.5 per cent in 1985 with private consumption alone about 3.7 per cent above GDP. This reflects a general decline in productivity and the impact of the acute inflationary pressures. Gross fixed capital formation had been on the increase since 1982 from 5.5 per cent of GDP to 11.9 per cent in 1985 which indicates the growth in public investment for the rehabilitation of the productive sectors of the economy.

IV. PUBLIC FINANCE

146. According to the 1986 budget, total government revenue was estimated at CFA 19 billion, a 53 per cent increase over the 1985 Revenue intake of CFA 12.4 billion. On the other hand, because of the continued implementation of austerity measures, particularly with regards to public expenditure control, total expenditure increased marginally to CFA 22 billion in 1986 compared to CFA 21 billion in 1985. Recurrent spending, including a huge defense budget, accounted for close to 80 per cent of total spending. The overall budget deficit of CFA 3 billion was covered largely by external funding. In 1987, total revenue is estimated at CFA 17.8 billion, a drop of 7 per cent compared to 1986 mainly due to an anticipated substantial cut-back in revenue from the cotton industry. Total expenditure is expected to increase to CFA 25.4 billion which implies a huge increase in the Budget deficit from CFA 3 billion in 1986 to CFA 7.6 billion in 1987. As usual this funding gap will be bridged by external assistance, notably funds for balance of payment support.

V. EXTERNAL TRADE, BALANCE OF PAYMENTS AND EXTERNAL DEBT

147. Chad's external trade is dominated by cotton, which is the major foreign exchange earner accounting for well over 80 per cent of total export receipts. The cotton industry has not sufficiently recovered from the 1982-1984 drought and this situation, coupled with low world demand and prices affected Chadian export performance in 1985. Consequently, the value of total export declined from CFA 48.6 billion in 1984 to CFA 36.5 billion in 1985. On the contrary, imports increased by 17 per cent from CFA 74.8 billion in 1984 to CFA 87.8 billion in 1985. The resultant deficit on the current account was somehow offset by a significant inflow of capital transfers including grants. On the whole, the external payment position continues to be precarious.

148. According to latest figures, the level of Chad's total external indebtedness is estimated at $157.9 million as at end-1986 with a debt service ratio of about 11 per cent. With the intensification of internal civil strife, the debt burden is expected to worsen particularly for those commitments related to Military expenditures.

VI. SECTORAL PERFORMANCE

A. Food and Agriculture

149. As mentioned earlier, agriculture and livestock production have been severely affected by the drought conditions obtaining in the country since 1982. The situation had engendered a food deficit estimated at 350,000 tons in 1984/85 alone when output of rice, sorghum and millet declined drastically. As for cash crop, production of cotton fell by 3.5 per cent in 1985/86 to 93,000 tons from 96,363 tons in 1984/85. The government had increased financial support to "Cotton-Chad", introduced attractive producer prices and encouraged the extension of acreage under cultivation by 4.4 per cent. In 1986, IBRD made financial commitments for the rehabilitation of the cotton industry. The Mamdi Polders irrigated agricultural project involving the irrigation of 1,800 h.a. for maize and cotton crop production, at a cost of $23.5 million, has attracted financial support from ADB/ADF, BADEA and the Islamic Development Bank. It is expected that the project will benefit about 1,150 farmers, with annual production of 3,000 tons each of cotton and wheat.

150. The drought had also caused the relocation of herders with their livestock and in the process caused a serious depletion in animal population. Consequently, cattle sales declined further in 1985/86 after a significant drop of 7 per cent in 1984/85 from the previous year's count.

B. Manufacturing

151. The manufacturing sector is relatively small contributing around 6 per cent to GDP. Production activities is limited mainly to semi-processing of such agricultural commodities as cotton and groundnuts and also meat products. Due to financial constraints, industrial production had experienced a set-back in recent years because essential inputs could not be imported. This had resulted in industrial capacity utilization of only 20-30 per cent, on average. The Government's Economic Recovery programme envisages a considerable amount of public investment in industry as well as industry-related activities and provides investment incentives as a means of establishing an appropriate environment to lure potential investors.

VII. IMPLEMENTATION OF THE SUBSTANTIAL NEW PROGRAMME OF ACTION

152. Chad had organized two Roundtable meetings in Geneva, in November, 1982 and December, 1985 with the assistance of the UNDP. The total cost of the public investment programme (PIP), presented in 1982 was CFA 153.3 billion for the period 1983-1985, of which 39 per cent or CFA 59.3 billion was meant for reconstruction activities including the rehabilitation of key productive sectors. Despite donor commitments, only 9 per cent of Chad's aid requirements had been met as at end-1985. During 1981-1984, total aid flows from DAC and OPEC amounted to $323.9 million, or an annual average of $81 million.

153. The Chadian Government estimates a total investment cost of $392.9 million for its national economic recovery programme during 1986-1990 but no indication is given on the likely available resources during the programme period. Under Lomé III, the EEC had allocated EUA 89 million for its aid programme in Chad. In duly 1986, IBRD approved a loan of SDR 17.1 million for the rehabilitation and maintainance of the priority road infrastructure as well as for equipments.

VIII. MEDIUM-TERM PROSPECTS

154. Economic Recovery and hence future developments prospects in Chad depend basically on the containment of the Civil War which has disrupted normal life for several years, and also favourable weather conditions for the enhancement of agricultural production. A boost in domestic production of cotton and favourable world demand and prices for cotton may have a positive impact on the cotton industry which usually nets the Government a considerable amount of foreign exchange. With an expected recovery in key sectors, ECA provisionally estimates that GDP grew by around 6.6 per cent in real terms in 1986 though a lower increase of 4 per cent is projected for 1987.

COMOROS

I. OVERALL GROWTH PERFORMANCE

155. In 1985, the economy of the Comoros grew at a rate of 3 per cent (1980 prices). This relatively satisfactory growth rate was the result of the good performance of the agricultural sector. However, per capita income fell considerably from $US 245 in 1984 to $US 233 in 1985 (1980 prices).

II. MAJOR DEVELOPMENT PROBLEMS AND POLICIES

156. The Government of the Comoros prepared and submitted to the international community at the July 1984 roundtable, an economic development programme for the period 1983-1990 designed to redress the serious development problems, which include, *inter alia* its physical isolation, high population growth rate, the weakness of the productive sectors and over-dependence on foreign inputs and high transport costs. The programme, which costs CFAF 122 billion emphasizes the development of transport and communications infrastructure to which nearly 40 per cent of the total amount of financing is allocated. The programme devotes only 19 per cent of the total expenditure planned to agriculture and fisheries, although agricultural development and food self-sufficiency are the main priority objectives. The other sectors of the economy are given less attention: industry gets 4.4 per cent of the expenditures, construction 7 per cent, services 3.3 per cent and human resources development 13.5 per cent.

III. EXPENDITURE ON GDP

157. In 1985, final consumption accounted for 84.3 per cent of the Gross Domestic Product (GDP); private consumption accounted for half of this. In real terms, private consumption increased in 1985 by 4.3 per cent as against 3.6 per cent on the average throughout the period 1981-1984. After growing by an average of 2.3 per cent between 1980 and 1984, public consumption declined by about 1 per cent in 1985. This decrease was due to the cut in Government salaries and expenditure in order to reduce the budget deficit.

158. Gross fixed capital formation accounted for 27 per cent of GDP in 1985. Its share of the GDP increased steadily from 22 per cent in 1981 to 26 per cent in 1984. Over this period, its growth rate was quite high: a yearly average of 5.8 per cent between 1980 and 1984 and 6 per cent in 1985. Domestic savings was, however, not enough to finance investment.

IV. PUBLIC FINANCE

159. The budget of the Comoros was CFAF 19.8 billion in 1986 or $US 50.9 million, 16 per cent less than the 1985 budget. The deficit for 1986 is estimated at 1.6 billion CFAF or $US4.1 million. The budget of the Comoros, which is very dependent on external aid, is heavily subsidized by France and some gulf Arab States. French aid was 24 million French francs in 1986, while the Assistance and Cooperation Fund (FAC) and the Caisse centrale de coopération économique (CCCE) paid subsidies of 13 and 54 million CFA francs respectively to the budget. Such funds were devoted to developing the rural sector and diversifying agricultural exports, transport and communications, health and training. The bulk of the budget's investment expenditure is financed from external resources.

160. Most tax revenue comes from customs revenue (import and export duties and taxes) and is closely dependent on trends in external trade. Other revenue, mainly direct and indirect duties, account for only about 15 per cent of the total. Customs revenue increased by about 25 per cent in 1986 to 95 billion CFA francs as a result of the increase in exports.

V. EXTERNAL TRADE, BALANCE OF PAYMENTS AND EXTERNAL DEBT

161. In 1985, the trade balance of the Comoros was characterized by a considerable expansion in exports which amounted to $US 30 million, an increase of 74.4 per cent over the previous year when, following a serious drought, exports had shrunk by 47 per cent. All the agricultural export produce contributed to the increase in the volume of exports. In 1985 the following were exported: 198 tons of vanilla, an increase of 16.5 per cent, 600 tons of cloves (an increase of 150 per cent) fetching 628 million CFA francs in revenue, 70 tons of ylang-ylang (up 12 per cent) and 900 tons of copra (an increase of 300 per cent). However, the impact of this increase in the volume of exports was somewhat limited by the decline in commodity prices on the international market.

162. The exports of vanilla, the main export product in terms of value, increased as a result of considerable de-stocking of vanilla in 1985. The Comorian Government sold its vanilla at prices below official world prices which were often so high that vanilla users turned to the cheaper synthetic substitutes. However, most of the 1985 crops was unsold and increased the volume of stocks.

163. Imports increased more slowly in 1985, 4.4 per cent, than in 1984, 12 per cent. They were mainly made up of foodstuffs. Recently, however, the proportion of manufactured and energy products in total imports has risen considerably from 22 per cent of imports in 1982 to 30 per cent in 1985.

164. The main trading partners of the Comoros are France, the European Economic Community (EEC), the United States of America and the countries of the Middle East. The terms of trade continued to decline as a result of the decline in the export prices of agrieultural products. Thus, despite the considerable increase in exports in 1985, there was still a trade gap of $US 30 million compared to $US40 million in 1984.

165. In 1984, the official external debt stood at about $US 200 million. In 1986, debt servicing amounted to $US 7.5 million or an 80 per cent increase over the previous year. The Comorian Government requested its major creditors to reschedule its debt and asked France in particular to revise upwards its aid to the Comorian budget to offset the effects of the devaluation of the French franc in April 1986. In November 1985, the EEC granted the Comoros a loan of 20 million European Currency Units mainly to finance agricultural projects.

VI. SECTORAL PERFORMANCE

A. Food and Agriculture

166. The agriculture sector accounted for 46.2 per cent of GDP in 1985. It is the main source of income for 80 per cent of the population. In 1985, the perofrmance of the agriculture sector was relatively satisfactory as compared to its performance during the recent years of drought. Agriculture value added achieved a real growth of 3.5 per cent as against 0.1 per cent in 1984. The total production of cereals in 1985 was 22,000 tons of which 6,000 tons was maize and 16,000 paddy rice. Other food crops produced were mainly sweet potatoes (18,000 tons in 1985), cassava (92,000 tons), coconuts (47,000 tons). Although this represents an increase of about 10 to 20 per cent over 1984, it is still well below current domestic requirements which are still mainly covered through imports estimated at around 88 per cent of the demand. Rice imports were estimated at 26,000 tons during the period under review. There were smaller increases in production for export crops because of the current slump in the major markets.

167. Fisheries account for about 13 per cent of the GDP. The sector is, however, not developed enough and much greater profits could be derived from the 30,000 tons per year of potential catch. Traditional methods are still used for fisheries mainly because of the lack of equipment. Fish catches in 1985 were about 4,000 tons.

168. Stock-breeding is very underdeveloped. In 1984, the archipelago had 83,000 cattle and 101,000 sheep and goats.

B. Industry

169. There was a relatively marked growth of 4.4 per cent in the industrial sector as a whole in 1985 accounting for 17.5 per cent of GDP, 5.6 per cent of which came from manufacturing industries. Industries are concentrated mainly in the processing

of agricultural export products and in the agri-foodstuffs sector (particularly drinks). Thus, all the capital equipment and building materials have to be imported. The new investments code is, however, trying to promote this sector.

170. Building and public works activities increased by 4.7 per cent. After the initiation of the main projects of the 1983-1989 development plan, there was a levelling-off in activities in the sector. Similarly, there was a slow-down in the activities of the energy sector which accounted for 6.9 per cent of GDP formation during the period under review.

C. The Tertiary Sector

171. The services sector, which accounted for 32.6 per cent of GDP in 1985, had a relatively low growth rate of 1.9 per cent. The value added of the transport and communications subsector, however, grew by 4.7 per cent. The development of transport infrastructure is a priority aimed at making the country less isolated. Thus, 37 per cent of the development programme's financing is allocated to infrastructural projects.

VIII. IMPLEMENTATION OF THE SUBSTANTIAL NEW PROGRAMME OF ACTION

172. The Comorian Government organized, in July 1984, a donor roundtable to mobilize financing for its investment programme estimated at 122 billion CFA francs. The sectoral allocation of resources is as follows: 18.4 per cent to the rural sector; 39 per cent to transport; 14.5 per cent to energy; 13.5 per cent to human resources; 6.9 per cent to buildings and 4.4 and 3.3 per cent respectively to manufacturing and services. The donors made commitments totalling 48 million CFA francs.

173. Total financial flows coming into the Comoros rose to 47.5 and 50.2 million US dollars in 1985 and 1986 respectively. The contribution of the Development Assistance Committee member countries, however, decreased by 9.2 per cent in 1985. Concessionary aid flows accounted on the average for 95.5 per cent of the total.

IX. MEDIUM-TERM

174. There should be a slackening off in the growth of the Comorian economy in the next few years with the continued implementation of the austerity budget plan begun in 1985 which resulted in a 16 per cent reduction in the budget deficit although, a great debt servicing burden persisted in 1986. The most optimistic growth forecast for 1987 is 2 per cent.

DJIBOUTI

I. OVERALL GROWTH PERFORMANCE

175. Djibouti's economic performance has been very poor for several years. GDP averaged a very low growth rate of 0.3 per cent (1980 prices) over the 1981-1985 period. In 1985, GDP dropped by 0.7 per cent in real terms to $US 249 million. This decline could be attributed mainly to the slowing down in the activities of the construction and trade sectors and the stagnation in port and transit activities.

176. In 1985, the population was 360,000 inhabitants. Its growth rate between 1984 and 1985 was about 3 per cent which, in view of the decline in GDP, represented a substantial decrease in per capita income from $US 737 in 1984 to $US 689 in 1985 (1980 prices).

II. MAJOR DEVELOPMENT PROBLEMS AND POLICIES

177. The economy of Djibouti remained seriously unbalanced. In 1985, the service industries sector still accounted for 72 per cent of GDP while the prductive sectors accounted for only a very small portion of the GDP. This state of affairs might be attributed to the weakness of the Djiboutian economy: the narrowness of the national market which offers only a few outlets to industry, the difficult conditions under which agriculture has to develop such as the aridity of the land and climate and drought, the poverty of its subsoil and shortage of qualified manpower.

178. The above factors seriously hampered the development of industries and of the agricultural sector while the strategic geographical position of Djibouti helped to develop transport, transit and service activities geared to the export trade. The country has remained heavily dependent on the outside world for the development of its growth potential.

179. The current economic and social development plan and the investment programme stress the development of industry and agriculture while strengthening the position of Djibouti as a major international transit port. However, reducing Djibouti's dependence on imported food, energy and manufactured goods remains one of the cornerstones of the programme.

III. EXPENDITURE ON GDP

180. In 1985, final consumption grew by 3.4 per cent more than in 1984 at 1980 constant prices accounting for more than 11 per cent GDP. Public consumption increased slightly by 0.6 per cent in 1985 after declining in the two previous years reflecting the austerity budgetary measure of the Government of Djibouti. Private consumption, on the other hand, continued to grow at a steady rate of 4.9 per cent.

181. The 1985 decline in growth affected investment as gross fixed capital formation is estimated to have declined by 3.8 per cent to 22 per cent of GDP. This was attributable to the slowdown in some investment activities of the development programme which in turn were affected by the decline in external financing flows to Djibouti.

IV. PUBLIC FINANCE

182. From 1982 onwards, the Republic of Djibouti had substantial budget deficits of which one of the main causes was the transfer of the army budget, which was formerly financed by the French Government, to the general budget. The austerity policy which was put into effect after France had scaled down its subsidies kept the budget deficit down to 350 million Djibouti francs in 1984 and 840 million Djibouti francs in 1985.

183. In 1985, expenditure on capital equipment, which had doubled in absolute value before the implementation of the austerity policy, had stagnated at its 1984 level, i.e., 5.7 billion Djibouti francs. Recurrent expenditure was also kept in check as a result of a small increase in salaries of the civil service. Recurrent revenue did not increase and remained stable as a result of the slump in economic activity.

V. EXTERNAL TRADE, BALANCE OF PAYMENTS AND EXTERNAL DEBT

184. Since 1981, there has been a considerable and steady decline in Djibouti's exports. Over the 1981-1985 period, the annual average rate of decline was 1.2 per cent at 1980 constant prices. In 1985, exports declined by 1.23 per cent to 23.8 billion Djibouti francs or $US 13.3 million at constant prices. The decline in exports was mainly due to the slump in shipping traffic which reduced the volume of goods going through Djibouti. The exports of domestic products, mainly livestock products such as hides and skins, barely accounted for 5 per cent of overall exports.

185. Imports, on the other hand, continued to increase although at a slightly lower rate than in the past. In 1985, imports were worth $US 24.7 million, increasin at a rate of 2.4 per cent at constant prices compared to an average of 3.1 per cent during the 1981-1985 period. Despite this decline in the growth rate of imports which could be assumed to be solely due to the economic situation, Djibouti remains heavily dependent on the outside world. Such dependence, aggravated by the shortcomings of the productive sectors of the economy, is particularly sensitive with respect to foodstuffs, drinks and electrical and mechanical appliances and petroleum products. Overall, the trade gap widened by 7 per cent to $US 11.3 million despite a slower rise in imports.

186. There were substantial deficits in the balance of payments since 1984. In 1985, the deficit amounted to about 10 million Djibouti francs. The increase in the total external payments deficit was mainly due to the stagnation in net capital flows from abroad (particularly from France) and to the exhaustion of foreign exchange reserves. Indeed, from 1982 onwards, while the deficit grew, increasingly heavy withdrawals were made on the foreign exchange reserves which, due to the steady decline in exports, did not increase sufficiently to compensate for the withdrawals. The external debt stood at 20 billion Djibouti francs in 1985, having increased at 3.5 per cent a year since 1982. The servicing of that debt amounted to about 600 million Djibouti frances equivalent to 2.5 per cent of total export earnings.

VI. SECTORAL PERFORMANCE

A. Food and Agriculture

187. The rural sector is of little importance to the economy of Djibouti since it accounted for barely 5.4 per cent of GDP in 1985. This small contribution to the GDP is attributable to the unfavourable conditions under which rural activities are carried out such as drought, a small number of farmers and insufficient production inputs and the fact that not enough land is cultivated (in 1985, FAO estimated only 200 hectares of land under permanent cultivation). The performance of the rural sector declined slightly in 1985; it had an average growth rate of 3.7 per cent as compared to 4.5 per cent in 1984.

188. The main products of the rural sector are livestock products which are the main source of income for more than a third of the population. Other products are fruits, vegetables and palm kernels while almost no cereals are produced at all. Fishing is an activity that is booming with considerable potential of about 4,000 tons of fish per year.

B. Industry

189. The manufacturing industry barely accounted for 3.6 per cent of GDP in 1985 with a growth in real terms of 0.9 per cent. The main industries are concentrated in agro-based activities (mineral water and textiles). The underdevelopment of industries makes the economy of Djibouti almost totally dependent on imported manufactured goods.

190. Construction and public works declined substantially in 1985 by about 3 per cent as in 1984 signalling a slowdown in the implementation of the development plan's construction programme. Limestone, gypsum and clay mining, which could provide raw materials to the building sector, grew slowly in 1985 at a rate of 1.5 per cent.

191. Djibouti's dependence on imported energy did not decrease in 1985. The development of the geothermal potential concentrated around Lake Assal is not yet at a stage where it can provide cheap energy. Thus, the energy bill accounted for 10 per cent of total imports. On the whole, the secondary production sector employs about 4,500 people and accounts for 22.7 per cent of GDP. The total value added of this sector declined by 0.6 per cent in 1985 at constant prices.

C. The Tertiary Sector

192. Most of Djibouti's economy is based on the activities of this sector which accounted for 72 per cent of GDP in 1985. Most of the activities involved the transport and transit of goods, banking services and services relating to the French military presence.

193. Since 1981, there has been a considerable decline in the growth of the services sector. In real terms, the growth rate in value added of services declined from 1.6 per cent in 1984 to 1 per cent in 1985. The decline observed in 1985 was basically due to the poor performances of the trade and transport sectors which declined respectively by 1.5 and 1.1 per cent. In order to limit the decline in the trade traffic observed in both the activities of the port and of the railway linking Djibouti to Addis Ababa, an agreement was signed in April 1985 with Ethiopia whereby Ethiopia undertook to use the port of Djibouti and the railway more frequently thus counter-balancing the competition from other ports in the region i.e. Assab and Jeddah.

VII. IMPLEMENTATION OF THE SUBSTANTIAL NEW PROGRAMME OF ACTION

194. The Republic of Djibouti organized a donor roundtable from 21 to 23 November 1983 during which an investment programme of $US 570 million or 100 billion Djibouti francs (DF) was submitted. External financing requirements is estimated at $US 310 million to supplement the $US 240 million already secured in addition to the $US 20 million local financing. The pledges for financing were estimated at $US 170 million. However, the initial review of aid flows undertaken on 15 April 1984, yielded an implementation rate of only 9.7 per cent. The tendency towards stagnation in capital flows at their 1983 level observed in 1984 and 1985 seems to indicate that donors did not keep the commitment they had made during the roundtable meeting.

VIII. MEDIUM-TERM PROSPECTS

195. Djibouti cannot have a higher and more stable growth as long as its main activities are heavily dependent on imports and a weak production structure. Growth will still be negative in 1986 at about -1.5 per cent in constant terms.

The particularly slow implementation of the investment programme will not have the expected effects on the economy as long as external financial resources are as difficult as they are to secure. It is feared that the balance-of-payments deficit will worsen following the decline in financial flows from donor countries. The budget situation will also remain precarious because of the decline in French subsidies to the general budget. Growth prospects for 1987 are not very bright.

EQUATORIAL GUINEA

I. OVERALL GROWTH PERFORMANCE

196. Under the various adjustment measures adopted by the Government, the limit on public expenditure had conditioned overall economic growth performance in Equatorial Guinea to be strongly linked to aid flows to finance fiscal deficits, balance of payments, technical assistance and investment. The decline in external assistance in recent years has, therefore, dissipated a substantial improvement in the economy.

197. However, since 1980, real GDP (1980 prices) had posted an average annual increase of around 2 per cent despite agricultural production shortfalls especially of such main export commodities as coffee and cocoa. The impact of favourable weather condition on agriculture, which accounts for 40 per cent of GDP, resulted into an overall increase in GDP by 7.3 per cent in 1985 although a slight decline to 6.7 per cent is estimated for 1986.

II. MAJOR DEVELOPMENT PROBLEMS AND POLICIES

198. The economy of Equatorial Guinea is facing a severe liquidity problem after the virtual drain on scarce domestic savings and investment funds. Increase in export volume during 1980-1984 were counterbalanced by collapse in world market prices for cocoa and coffee, the major foreign exchange earners. The cocoa plantations experienced a shortage of managerial skills worsened by a mass exodus of expatriate owners. This led to a stagnation of agricultural prouction.

199. Since 1985, however, agriculture has shown signs of recovery. Coffee production has increased and with IDA and BADEA assistance, cocoa plantations have began to be rehabilitated. What is more, the country expects that its membership in the franc zone and of UDEAC will help eliminate the smuggling of agricultural produce into neighbouring countries and provide it with a much larger market.

200. Also, in 1985, the Government made important institutional changes aimed at correcting the imbalances through restricted monetary, fiscal and incomes policy. An agreement with IMF was reached in 1985 by which the Government would have access to SDR 9.2 million for financial and economic stabilization. The agreement imposes severe restrictions on public expenditures. For instance, it is one of the conditions that 75 per cent of recurrent expenditure be spent on repayment of public debt which leaves very limited funds for public investment. The Government also reached an agreement with the World Bank on a rehabilitation import credit aimed at alleviating the unfavourable balance of payments situation while securing supply of capital goods needed for rehabilitation.

III. EXPENDITURE ON GDP

201. Total consumption which accounted for 104 per cent of GDP in 1980 represented no more than 90 per cent in 1986. From 1983 to 1986, it declined from 19.7 per cent to 6.3 per cent. Private consumption which had accounted yearly for nearly 70 per cent of total consumption dropped slightly by 1.1 per cent in 1985 but rose again by 23 per cent in 1986 to $US54.2 million out of an estimated GDP of $US86 million. In contrast, public consumption dropped in 1986 by 20 per cent following the implementation of the stabilization programme concluded with the IMF. Gross investment which in 1985 had decreased by 17.1 per cent as compared to the 1983 figure, increased in 1986 to $US 16.3 million. This was slightly less than the $US 16.9 million of 1983. Exports and imports accounted for 30 and 40 per cent respectively of GDP.

IV. PUBLIC FINANCE

202. In 1985, the commercial banking system went to the brink of bankruptcy owing to serious liquidity problems created by the dearth of savings and investments. However, the budget deficits of CFAF 1.4 billion in 1984 and CFAF 58 million in 1985 turned into a surplus of CFAF 401 million in 1986 because of the increases in revenue.

203. Total expenditure decreased by 5.4 per cent. Current expenditure decreased by 2 per cent and investment expenditure by 24 per cent. Wages are the only item which showed an increase in the 1986 budget by 9 per cent. Services in general, diminished by 4 per cent and debt servicing by 29 per cent. Fourteen per cent of recurrent expenditure was allocated to debt servicing as compared to 46 per cent in 1985.

V. EXTERNAL TRADE, BALANCE OF PAYMENTS AND EXTERNAL DEBT

204. The trade deficit of $US 8.4 million in 1985 decreased by 7.7 per cent in 1986 to $US 7.7 million. Exports increased by 11.2 per cent and imports by 6 per cent. Cocoa accounts for 69.7 per cent of export earnings, timber for 24 per cent and coffee for 5.6 per cent. Twenty-five per cent of total annual imports are generally food products.

205. The result has been a 62.5 per cent increase in the current account balance, an increase that has been made possible by the 22.5 per cent rise in services and the 1.2 per cent decline in transfers. The capital account deficit for the previous year increased by nearly 294 per cent because of a 16 per cent increase in public capital inflows and a 50 per cent decrease in the deficit of private capital inflows. The net balance of these transactions was reflected in a seven per cent decrease in the balance-of-payments deficit to an equivalent of 7.5 per cent of GDP.

206. The outstanding external debt amounted to $US 11 million as of 31 March 1985, Debt servicing was estimated in 1986 at $US 10.3 million or 40 per cent of export earnings. On 22 July 1985, Equatorial Guinea secured from the Paris Club a ten-year rescheduling of its FF 246 million of guaranteed debt. Unfortunately, a substantial percentage of unsettled foreign commitments are owed to the International Monetary Fund and cannot therefore be rescheduled.

VI. SECTORAL PERFORMANCE

A. Food and Agriculture

207. Agriculture is the key sector of the economy. It accounts for nearly 40 per cent of GDP and generally food production is adequate to meet the basic needs of the people. The main food crops are cassava, taro, maize, fruits, vegetables and palm oil. Equatorial Guinea imports wheat, rice, oil, meat preserves and other products.

208. Last year, significant raises in producer prices (on average 215 per cent) made it possible to increase cocoa production by 20 per cent and coffee output by 279.5 per cent. Although the production of these two main cash crops has not attained pre-independence levels, the output has considerably increased. The Government is implementing a cocoa rehabilitation project which is aimed at increasing the land put under cocoa to 7,550 hectares. In this connection, farmers and co-operatives are granted loans. The objective is to raise production to 800-1,000 kilos per hectare which would mean a rise in production of 3,340 tons initially and 4,170 tons within twelve years.

209. Most of the plantations are found on the mainland but in recent years the produce was smuggled out and sold in Cameroon. By joining the franc zone, the Government hopes to solve this problem. The vast forest of Rio Muni produces high-quality timber. Annual production (69,000m^3 in 1983) could be increased to 300,000m^3 had it not been for the complexity of administrative regulations, poor planning, management, transport and the shortage of spare parts, fuel and electricity. Artisanal fishing is little developed and commercial fishing is in the hands of foreign companies which operate under licence for export. Almost all the meat needed is imported.

B. Industry

210. From 1980 to 1985, the contribution of industry to GDP was in the neighbourhood of 12 per cent. Mining makes no contribution to GDP but a petroleum and gas deposit of indeterminate size were discovered off Bioko in 1984. Preliminary studies also indicate the presence of titanium silicium, manganese, uranium, alluvial gold and iron. In 1985, the manufacturing sector consisted of four

sawing factories that were operational, a plywood and wood-working factory and a brick-making plant. The remarkable increase in productivity of nearly 19 per cent in this sector has been due to a 17.6 per cent increase in forest activity.

C. Transport and Communications

211. At the beginning of 1985, the road network was extended to 1,240 km. Of these roads, 528 km. were hard surfaced while 712 km. were of laterite. Transport and communications are complicated by the fact that great distances separate the mainland from the island parts of the country. The country has two major airports: Malabo for international route aircraft and Bata for small air crafts. In 1985, Iberia, the Spanish airline which was the only carrier flying direct to Europe via Lagos suspended its twice-weekly flight to Malabo because the fire safety facilities of the airport were inadequate. The Spanish Government temporarily commissioned a DC8 of its navy to fly the route between Madrid and Malabo. The only remaining air link to Equatorial Guinea was via Cameroon. A telecommunications centre has been established in Malabo.

VII. IMPLEMENTATION OF THE SUBSTANTIAL NEW PROGRAMME OF ACTION

212. Contributions to the three-year economic recovery and development programme that Equatorial Guinea submitted to donors in April 1982 amounted to $US 74,493,000 or 53 per cent of the financing required. Of this amount, 70 per cent was in the form of grants. Resource availability has been projected for 1986 at $US 31 million and $US 32 million for subsequent years.

213. Unfortunately, the amounts pledged did not match with the priorities of the Government. Agriculture secured more than 75 per cent of the amount requested with 70 per cent of that 75 per cent allocated to the promotion of export crops, mainly cocoa. Water, housing and urban development secured very little financing. From 1983 to 1985, the foreign aid received was $US 220 million or $US 700 per inhabitant while the Government counterpart was $US 8.2 million. The only problem was that grants decreased from 42 per cent in 1984 to no more than 15 per cent in 1985. Early in 1987, the Government expects to organie, with UNDP support, a roundtable meeting with its development partners. In accordance with the new UNDP format, a comprehensive development plan has been drawn up including sectoral and macro-economic development strategies and policies.

VIII. MEDIUM-TERM PROSPECTS

214. The fact that it has petroleum in commercial quantities to explore, that its entry into the franc zone gives it a convertible currency and that it has become a member of the Central African Customs Union give reason to hope that Equatorial Guinea's economic activity will pick up. However, the country should make it a point to co-ordinate the priority projects formulated with the support of donors of appreciable economic growth performance is to be achieved in the medium-term.

ETHIOPIA

I. OVERALL GROWTH PERFORMANCE

215. The Ethiopian economy rebounded strongly in FY 1985/86 with a growth rate of 11.3% (constant FY 80/81 prices) which is a significant recovery from the sluggish growth performance of FY 84/85 when real GDP declined by 6.6%. Good rains combined with increased resource concentration in agriculture resulted into a 22% increase in value added by the sector. This showing along with positive growth rates posted by two other major sectors: industry by 4% and services by 4.3%; explains the recovery in real GDP growth in FY 85/86.

216. The rate of inflation (based on Addis Ababa retail price index with 1963 = 100) was contained at 4.6% in 1986 as against 18% in 1985. The price of food increased by about 5% in 1986 which is modest compared to a high price increase of 25% in 1985, the year the effects of the devastating drought started unfolding.

II. MAJOR DEVELOPMENT PROBLEMS AND POLICIES

217. Underlying the economic growth performance in FY 85/86, Ethiopia is still beset with the medium-term repercussions of drought-related developmental problems facing the economy especially the incommensurate increase in food production relative to a high population growth rate of 2.9% which has widened the food demand-supply gap and hence a surge in prices. Officially, the food aid requirements for 1987 alone is estimated at 1.2 million tons to augment domestic supply. The impact of the drought may take some three years to subside and for the economy to recover fully depending on favourable climatic conditions to buttress the Government's agricultural rehabilitation efforts.

218. Other major problems include the shortage of foreign exchange and the deterioration in the fiscal situation. The Government continues to rely extensively on external borrowing and increased recourse to the domestic banking system to finance the budget deficit both of which have contributed to the country's increased internal and external indebtedness and domestic inflationary tendencies.

219. To redress these problems, the Government is arduously implementing the second sub-Plan (1986/87-1988/89) of the Ten-year Development Plan (1984/85-1993/94) whose main thrust is Agricultural Rehabilitation through increased financial and other material resources concentration; introduction of guaranteed producer prices, the provision of high yielding seed varieties; and the dessimination of improved techniques to smallholder farmers. Various programmes have also been formulated, including: the expansion of agricultural research; improvement in livestock production; resettlement of drought victims in areas suitable for farming activities; water resource management and favourable credit policies to encourage investment as well as measures to mobilize domestic resources, among others.

III. EXPENDITURE ON GDP

220. The expenditure pattern exhibited in FY 84/85 and FY 85/86 showed a continued upsurge in consumption expenditure relative to total available resources in term of GDP. Total consumption expenditure accounted for 97.3% of GDP in FY 85/86 with private consumption absorbing 79.9% of this proportion. The share of public consumption expenditure in GDP was somewhat restrained from 19.5% in FY 84/85 to 17.4% in FY 85/86.

221. Gross domestic savings as a proportion of GDP declined in FY 84/85 by 1.8% but recovered slightly in FY 85/86 with an increase of 2.7%. This trend in domestic savings has been influenced mainly by the persistent decline in real income over the years which had dissipated the private sector initiatives to save. The share of gross investment in GDP has been rather stable at 10% during the same period reflecting the decline in public sector investment.

IV. PUBLIC FINANCE

222. The FY 85/86 actual out-turn of total government revenue is estimated at Birr 2.42 billion, an increase of 9% over the revenue in-take of FY 84/85 of Birr 2.2 billion. Tax revenue (constituting an average share of 75% of total revenue) increased by 11% which explains the increase in overall Government receipts. Total expenditure was around Birr 3.44 billion in FY 85/86 with recurrent expenditure absorbing Birr 2.29 billion and the capital account some Birr 1.14 billion. The resultant budget deficit of Birr 1.02 billion was financed largely from external sources: External aid: Birr 187.1 million; external borrowing: Birr 340 million; both of which accounted for 52% of the resources required to finance the deficits, while domestic bank borrowings provided the remaining Birr 491.6 million.

223. The FY 86/87 budget projects total expenditure to increase to Birr 4.59 billion which is 33.4% over estimated expenditures in 1985/86. Recurrent expenditure will absorb Birr 2.63 billion while the capital budget allocation is Birr 1.95 billion. As was the case in FY 85/86, 52% of the budget deficit is expected to be financed from external borrowings and aid.

V. EXTERNAL TRADE, BALANCE OF PAYMENTS AND EXTERNAL DEBT

224. Coffeee is Ethiopia's major export earner and as such the size of export earnings is heavily dependent on domestic production and external demand and prices. The Brazilian drought had warranted world coffee price increases in 1986 which resulted into Ethiopia's coffee export receipts accounting for 67% of total export earnings of Birr 987.7 million in FY 85/86 up 27.4% over the FY 84/86 earnings of Birr 775.1 million.

225. On the other hand, imports in FY 85/86 remained about the same at Birr 2.02 billion as in FY 84/85. This was due to lower food import on commercial terms and a more stricter control on imports in general. In view of this and the substantial gain in export earnings, the trade deficit in FY 85/86 showed an improvement compared to the huge deficit of Birr 1,273.4 million recorded in FY 84/85. Taking into account public and private transfers and net services, which had shown a surplus in recent years, the deficit on the current account improved markedly resulting into a balance of payments surplus of Birr 350.[illegible] million.

226. At end-FY 84/85, total external debt was estimated at Birr 3,336 million, an increase of 5% over the FY 83/84 debt of Birr 3,183 million.

VI. SECTORAL PERFORMANCE

(a) Food and agriculture

227. The agriculture sector remains the principal contributor to GDP (an average of 45%) and accounts for 90% of export earnings. With the advent of good rains and increased financial and material resource concentration in the sector, value added increased by a resounding 22% in FY 85/86.

228. Food crop production increased by 36% from 4.7 million tons in 1984/85 to 6.4 million tons in FY 85/86 although this output falls short of the pre-famine 1982/83 harvest of 7.8 million tons. With an average annual population growth rate of 2.9%, there is still a considerable dent in the food supply situation necessitating an official estimated food aid requirement of 1.2 million tons in 1987.

229. Cash crop production is estimated to have increased by 34% from 5 million tons in 1984/85 to 6.7 million tons in 1985/86 largely as a result of increased acreage under cultivation and favourable climatic conditions. Output of coffee increased by 30% from 116,300 tons in 1984/85 to 151,800 tons in 1985/86. Ethiopia stands to gain substantially from coffee price increases in 1987 as was the case in 1986 since the Brazilian export availablity is likely to be at 50% which has led to the termporary suspension of the ICO export quotats. The government announced a new variety of coffee seed known as 741F59 whose potential allows production of 12 quintals of coffee per ha. compared to 3 quintals per ha. for untreated plantations. It is estimated that the new seed could triple Ethiopia's annual output to around 600,000 tons.

230. The impact of the drought is still been felt and it may take another three years for the economy to recover fully. The government's rehabilitation efforts are bearing fruits as evident by increases in both food and cash crop production. However, there are still the problems of inadequate supply of inputs (fertilizers and high yielding seed varieties); poor infrastructural facilities especially the distribution network; inadequate incentives to farmers in terms of producer price increases, an ineffective credit system and in general, low level of investment.

(b) Manufacturing

231. In FY 85/86, the manufacturing sector share of GDP was around 8.1% down from 8.9% in FY 84/85. Unlike the agriculture sector, state-owned manufacturing establishments account for well over 90% of total output. In absolute terms, manufacturing output increased by 5.3% from Birr 667.7 million in FY 84/85 to Birr 703.3 million in FY 85/86. This performance is largely explained by the trickle-down effects of enhanced agricultural production, particularly of the increased supply of raw materials for agro-industrial crops, which made possible the increased supply of raw materials for agro-based industries.

232. The manufacturing sector continues to be confronted with foreign exchange shortages especially for imported raw material - dependent industries as well as for purchases of spare parts for ailing plants. Also, the government's policy of encouraging private sector participation has not been buttressed by the necessary credit facilities and overall incentive structure to lure potential investors.

(c) Mining and energy

233. Ethiopia's mining and energy sectors are still limited to exploration with very negligible production activity except for gold production and refining of petroleum. Gold production was 916 kg. in FY 84/85 and 874 kg. in FY 85/86, which are 24 and 27%, respectively, below the targetted output of 1,200 kg. for both years. The country is totally dependent on outside sources for crude oil and in FY 84/85 the volume of petroleum refined at Assab Refinery was 725,000 tons.

234. The combined current capacity of salt production at Massawa (100,000 tons) and Assab (97,000 tons) of 197,000 tons is expected to be expanded at the Assab Factory to 170,000 for export to Kenya, Burundi and Uganda.

235. In the energy sector, major hydroelectricity projects are underway to tap the hydropower potential of the country. The Melkawahana, with 150 mw capacity and Gelgel Gibe hydroelectricity projects are among the major undertakings. The government has obtained an IDA credit of SDR 39.6 million to exapnd firewood plantation. The project, which will also receive a government finance of $17.1 million, involves the creation of 11,000 ha. of new eucalyptus plantation and upgrading of 13,000 ha. of existing forest. Additionally, IDA has offered an interest free loan of SDR 53.7 million to help toward energy development and rehabilitation over a five-year period starting 1987.

VII. IMPLEMENTATION OF THE SUBSTANTIAL NEW PROGRAMME OF ACTION

236. The Ethiopian Government had designated the Central Planning Supreme Council (CPSC) as the focal point for the monitoring of the SNPA at the national level and had opted for a UNDP Roundtable mechanism. The CPSC had prepared a Ten-year National Development Plan and a Public Investment Programme whose external aid requirements are estimated at Birr 41.8 billion. According to latest information, the holding of the RT meeting with donors is still undetermined.

VIII. MEDIUM-TERM PROSPECTS

237. The Economic Recovery Signalled in FY 85/86 is expected to be sustained in FY 86/87 with the proviso of continued improvement in weather conditions and the injection of the 25% share of planned investment into the agriculture sector. The surge in coffee prices is expected to be maintained in 1987 and the anticipated boost in coffee production and hence exports will result into a substantial improvement in export-earnings and consequently of the balance of payments position. The Three-year Plan (1986/87-1988/89) envisages to sustain the Recovery through increasing food production and combatting drought as well as enhancing the foreign exchange earning capacity of the country. With all the policy measures and necessary reforms put in place, real GDP is projected to grow at slightly above the 6.3% annual average envisaged in the Plan.

GAMBIA

I. OVERALL GROWTH PERFORMANCE

238. In recent years, the Gambian economy has witnessed persistent economic and financial difficulties attributed mainly to deteriorating agricultural production as well as the inability of the government to mobilize both domestic and external resources in support of the national economic recovery programme. The country's economic performance is a function of its principal export groundnut hence the vagaries of weather conditions notably the 1982-1983 drought, combined with wide fluctuations in world groundnut prices, had reduced Gambia's export earning capacity resulting into serious financial difficulties and contraction in overall economic activity.

239. Real GDP declined by 2.8 per cent in 1984/1985 followed by a fall of as much as [illegible].9 per cent in 1985/1986. The rate of inflation accelerated from 22 to 34 per cent during the same years which led to considerable drop in real income.

II. MAJOR DEVELOPMENT PROBLEMS AND POLICIES

240. The major obstacles to Gambia's economic and development performance is its mono commodity dependent character (groundnut alone nets the government about [illegible]0 per cent of export earnings), failure to diversify the production base, huge public sector deficits and the ever increasing external debt obligations. In 1982 the government launched the second national development plan (1981/1982 - 1985/1986) with a planned annual growth rate in real GDP of 5 per cent over the period. The main objectives of the plan was to strengthen the Government's fiscal position, bring down the balance of payment deficits, restore price stability and liberalize the trade regime. Implementation of the plan did not meet with much success as planned targets were not achieved.

241. New austerity measures were announced in 1985/1986 as part of an Economic Recovery Programme (ERP). The policy reforms envisaged consisted of freeing the exchange rate, measures to enhance agricultural production and promote other productive sectors, reform of the Civil Service and parastatals and to restore a balance in the fiscal situation. By August 1986, all the elements of the ERP were in place. The Dalasi was floated in February 1985 leading to a 100 per cent de facto devaluation which helped somehow in boosting export earnings in local currency terms. Agricultural producer prices were substantially raised in FY1985/86 to encourage production and offset the progressive decline in farmers' incomes. About 2000 public sector employees were laid off resulting into a cutback in public expenditures on personal emoluments and reallocation of the savings to other budget components.

242. The IMF is supporting the Gambia's three-year macro-economic and structural adjustment programme covering 1986/1987 - 1988/1989 with various fund facilities including a structural adjustment loan. The programme focusses special attention on pricing and other incentives combined with a progressive reduction of administrative controls, streamlining and reform of public enterprises and the improvement of the quality and management of public investment.

III. EXPENDITURE ON GDP

243. ECA's preliminary estimates, based on official figures, indicate that total final consumption as a proportion of GDP was about 2.4 per cent higher in 1985 at 102.4 per cent but projected to be around 96.6 per cent in 1986. This consumption feature is not an indication of increases in quantum terms but a reflection of the impact of inflation which currently runs at over 34 per cent and also the step-up in unbudgeted government outlays which resulted in an increase in public consumption by 5 per cent in 1985. Private consumption declined by 15 per cent in 1985 due to depressed real income. In 1985-1986, gross fixed capital formation as a percentage of GDP tapered off at 24.9 per cent which implies a slow down in public sector investment.

IV. PUBLIC FINANCE

244. Budgetary performance in FY85/86 was somehow impressive as the government made strenuous efforts to improve tax collection thereby boosting current revenue to D218.08 million. The actual out-turn of recurrent expenditures was D182.14 million, 12 per cent less than the budget estimate of D207.5 million, an indication of the effects of the austerity measures which required stringent public expenditure control. The development account was also squeezed to D83.5 million, 35 per cent below the budget figure of D127.07 million.

245. In FY86/87, recurrent expenditure is estimated at D262.5 million in addition to which a budget line under «exceptional recurrent expenditure» is earmarked to finance D85 million budgetary transfer to the Gambian Produce Marketing Board (GPMB) to meet increases in producer prices; D10.1 million to service interest payments due to in FY86/87 on overseas private sector loan guaranteed by the government and D1 million for the resettlement of government workers retrenched under the ERP. Capital expenditures is projected at D201.2 million while receipts by the development fund (mainly from external loans, grants and a transfer of D2 million from the consolidated account) are expected to total D188.2 million leaving a deficit of D13 million in capital spending in FY86/87.

246. Recurrent revenue is expected to increase further in FY86/87, by 22 per cent over its FY85/86 level to D266.7 million which gives a modest budget surplus of D4.2 million on the recurrent account if the exceptional recurrent expenditure items are not considered. As in the past, the budget deficit is expected to be financed largely from external sources and domestic bank credit.

V. EXTERNAL TRADE, BALANCE OF PAYMENT AND EXTERNAL DEBT

247. The dependence of Gambia's external trade performance on a single commodity - groundnut - makes export earnings highly correlated with the vagaries of weather conditions and fluctuations in world groundnut prices. For instance, the trade deficit peaked at D230.5 million in 1980 due to poor groundnut harvest that coincided with high import cost, domestic credit expansion and increases in imports related to externally funded development projects.

248. In 1985, total import was D438.3 million while exports amounted to D208.8 million which implies a negative trade balance of D229.5 million. The inflow of capital has generally been inadequate to offset the current account deficit and this has resulted into a persistent balance of payment deficits and ultimately a run down of reserves to as low as $2.26 million by end-1984 dropping further to $1.76 million by end-1985.

249. The total public and public guaranteed medium and long-term external debt stood at $161 million at end-1984 according to an IBRD estimate. Short term debt has risen sharply from $23 million in 1983 to $41 million in 1984 and estimated to have increased further by about 5 per cent in 1985. The total external liability at end-1984 amounted to $279 million, equivalent to 140 per cent of GDP. Debt service payments increased from $7.2 million in 1984 to $16.3 million in 1985 and according to official estimates, the scheduled annual debt service for 1986-1990 is around $26 million.

VI. SECTORAL PERFORMANCE

A. Food and Agriculture

250. The severe drought of 1983 affected overall agricultural production during the 1984/85 growing season. Marketed output of the major cash crop - groundnut - dropped from 151300 tons in 1983 to 113800 tons in 1984. However, although the rains returned in 1985, preliminary estimates indicate that groundnut output fell further to 105100 tons while cotton production decreased from 2496 tons in 1984/85 to 1700 tons in 1985/86. As for food crop, rice production (staple food) has been on the decline since 1982 from 39400 tons to an estimated 27200 tons in 1985. For 1984/85 alone, the food grain deficit was estimated at 44600 tons and projection for 1985/86 put the deficit at 5-6 per cent higher than the previous year.

251. The government recognizes the predominance of the agricultural sector in overall growth performance and hence an incentive package including substantial increases in producer prices have been put into effect as a means of enhancing production. For food self-sufficiency, the Rice Development Scheme - the Jahaly-Pachaar project - at a cost of $17 million and covering an area of 1500 h.a. - is been executed. It is estimated that the project would yield an annual production of 10 000 tons of rice or one-third of the country's requirements.

B. Manufacturing

252. The manufacturing sector is relatively small and limited principally to groundnut crushing, baking, brewing, tanning and brick making. The sector accounts for under 10 per cent of GDP and contributes about two-thirds of secondary sector output.

253. In 1984/85, the manufacturing sector was given a big push by the government through increased concentration of resources including the provision of fiscal incentives so as to creat a favourable investment climate as well as strategies for domestic resource-based expansion of industrial operations. Public sector investment under the Development Budget for 1984/85 was around D8 million geared towards the promotion of small scale activities and other priority light industrial ventures.

C. Tourism

254. The tourist industry is a growing sector in the Gambian economy contributing about 9.7 per cent of GDP on average and providing about 3 000 jobs. The increased level of related service activities based on the inflow of tourist has encouraged the government to substantially raise the hotel bed capacity from a low of 350 in 1970 to a present level of about 4 000. This expansion was to cater for a projected tourist market of 85 500 in 1985/86.

VII. IMPLEMENTATION OF THE SUBSTANTIAL NEW PROGRAMME OF ACTION

255. UNDP assisted the government of Gambia in organizing a Roundtable meeting with donors in Banjul in November, 1984 which provided an opportunity for a policy dialogue and commitments for the external aid component of the country's public investment programme (PIP) - 1984/85 - 1987/88, with a total cost of D177 million. Follow-up sectoral consultations were held in 1985 for health, fisheries and balance of payments support. In 1987, the government has scheduled consultations for the agriculture and water development sectors. Recent estimates based on official figures puts Gambia's resource requirements for economic recovery up to 1990 at $157.4 million of which only $23 million might be available according to information on commitments from domestic and external sources. This leaves a huge resource gap of $134.4 million which would require a joint government-donor financial participation.

256. With regards to international support measures, the government and the IMF had worked out a financing package under the Fund's Structural Adjustment Facility (SAF) totally $30 million to be co-financed by other bilateral and multilateral donors. The fund's resources will be used in support of the economic recovery programme and it includes: a 13 month stand-by loan of SDR5.1 million; Compensatory Financing Facility (CFF) loan of SDR4.7 million to compensate for falling prices of groundnut; and a three-year SAF loan of SDR8 million. The World Bank is supplementing the Fund's efforts with an approval loan package of SDR 14.1 million in support of the Gambia's medium-term policies.

VIII. MEDIUM-TERM PROSPECTS

257. The successful realization of the objectives of the economic recovery programme and overall prospect of the Gambian economy depends to a large extent on the performance of the external sector, particularly the level of foreign exchange earnings from exports and the flow of external assistance. No substantial improvement in world demand and prices for groundnuts is foreseen in 1987 and the vagaries of weather conditions may prove an inhibiting factor in boosting domestic groundnut production. Based on this gloomy picture, ECA projects real GDP to decline drastically by 10.3 per cent in 1987.

GUINEA

I. OVERALL GROWTH PERFORMANCE

258. The liberalization and economic stabilization efforts undertaken in Guinea since the political change of 1984 are beginning to yield results which have yet to be consolidated. GDP at 1980 prices grew by 0.8 per cent in 1984 and by 2.6 and 2.4 per cent in 1985 and 1986 respectively. This corresponds to a GDP of 389.8 billion Guinean francs in 1986 (1980 prices) as compared to 380.6 billion in 1984.

259. These results remain modest in view of the growth potential and are attributable to the adjustment difficulties of the productive sector and to structural weaknesses: centralized planning and collectivization of the means of production which caused capital flight, a significant brain drain, the existence of an over-valued national currency which impeded foreign trade and a bloated public sector whose running required a substantial supply of money, inducing a high rate of inflation.

II. MAJOR DEVELOPMENT PROBLEMS AND POLICIES

260. The economy of Guinea is currently facing several critical problems which have led to the adoption of a National Interim Recovery Programme (NIRP) for the 1985-1987 period. Among the problems are the inward-looking nature of the rural sector and the drop in agricultural exports, the weakness of the productive sector, the price distortions caused by official and unofficial exchange rates, the organizational weaknesses of economic development institutions, the share of parastatal spending in the Government budget; the volume of public consumption, and the shortage of foreign currency to finance imports and investments. On the whole, mining and manufacturing industries have been accorded top priority in the development plans undertaken in Guinea since independence, accounting for nearly 50 per cent of all investments made, while rural development, public works and transport have been neglected for a long time.

261. The agricultural policy adopted has resulted in the collapse of agricultural exports, the decline of food production and a correlative increase in food imports whose consumer prices were highly subsidized. With regard to animal production, livestock marketing was the monopoly of State bodies that bought them below cost in order to provide affordable meat to the urban population. This distribution system resulted in expensive meat imports and rationing. Faced with these constraints, producers turned to more rewarding external markets, thus creating substantial smuggling of livestock to the neighbouring countries.

262. Overall, the rural sector is handicapped by marketing deficiencies and poor pricing, inadequate communications and storage facilities and low productivity. Population pressure and the backward agricultural system have led to increasing soil erosion and an alarming rate of deforestation.

263. In the secondary sector, manufacturing output has dropped because State-owned enterprises do not have enough foreign currency to finance their imports of raw materials, spare parts and capital goods. Existing industries operated at very low capacity or were simply closed down. All of them are confronted with serious problems of poor management which add to their running costs. The private manufacturing sector is almost non-existent due to previous political restrictions, and the lack of incentives (very low official prices and an overvalued national currency).

264. The policy followed in education and the automatic recruitment of graduates has burdened the civil service with underemployed and underpaid civil servants. The State budget, already faced with serious revenue collection problems, devoted 65 to 70 per cent of its resources to recurrent expenditure, more than 25 per cent to subsidies for public enterprises and very little to investment. These imbalances in public finances were compounded by the accumulation of arrears in the servicing of external public debt which reached a record high of US$86 million in 1985.

265. The recovery programme carried out by the government since April 1984 aims at promoting structural reforms likely to induce a recovery in economic activity and to restore the main macro-economic equilibriums while securing the social well-being of the population. The programme sets a remarkable trend of liberalization and privatisation highlighted by the closing of several unprofitable public enterprises and major banks, the reduction of the number of civil servants (the target being 50 per cent), the devaluation and the change of the currency and the establishment of a system for auctioning foreign currencies. In view of the unco-ordinated character of the interventions by Guinea's new external partners, these reforms still have to show results in terms of generating lasting growth. Even if the centralized planning system has been abandoned, a number of objectives have been defined at the sectoral level. Thus, the rural sector is to assume responsibility for national food self-sufficiency, produce a surplus for export and provide reliable supplies to the agro-industrial sector.

266. The new industrial policy aims at encouraging private investment in small and medium-sized enterprises in particular, to compensate for denationalisation. The role and areas of intervention of the supervisory bodies have also been redefined so as to rationalize transfers between State-owned enterprises and companies and the budget. The move to open up the country to the other countries of the sub-region is expected to make it possible to compile an inventory of an develop the substantial mineral and hydro-electrical resources available in Guinea while the rehabilitation and extension of the existing transport and communication infrastructure is expected to open up the country both internally and externally.

267. The main reform undertaken in 1985-1986 concerned the monetary system with (a) the closure of the major national banks, (b) the changing and devaluation of the national currency; (c) the establishment of a two-tier exchange rate to promote external trade, (d) credit control and the reduction of paper money through the issue of government bonds at 35 per cent premium per year to reduce domestic inflation. This reform is part of a structural adjustment programme supported by the World Bank and the International Monetary Fund, and planned investments for the 1985-1987 period amount to US$884 million, of which 25 per cent will be spent on rural development, 28 per cent on transport and communications and 18 per cent on human resources development.

III. EXPENDITURE ON GDP

268. During the 1985-1986 period, the main components of demand regressed. Final consumption grew by 1.9 per cent in 1985 and 17 per cent in 1986. This trend is attributable to the reduction in household income, where consumption expressed as a percentage of GDP stagnated around 63.5 per cent while public consumption increased by 4.5 per cent per year following the postponement of some budget cuts which could not be made on some items of public expenditure. During the same period the investment rate was around 14.4 per cent and exports increased by 2.7 per cent per year while imports stagnated in volume. Overall, the domestic rate of savings grew from 17.3 per cent in 1985 to 17.9 per cent in 1986.

IV. PUBLIC FINANCE

269. The situation of public finance has remained unfavourable in spite of the austerity measures taken and less State intervention. The bulk of expenditure resulted from the substantial arrears accumulated by State-owned enterprises, total wages and the servicing of external public debt. The central government deficit increased by almost 31 per cent in 1985 and by 43.8 per cent in 1986, that is from 51.3 billion Guinean francs to 73.8 billion. Recurrent expenditure increased by 53.5 per cent. The deficit in the recurrent budget amounted to approximately 42.1 per cent of the overall budget deficit. Faced with enormous revenue collection problems due to a slow down in economic activities and a drop in income, the Government resorted to the domestic banking system and to substantial external aid to finance the deficits which amounted to US$35 million in grants and exceptional subventions in 1985.

V. EXTERNAL TRADE, BALANCE OF PAYMENTS AND EXTERNAL DEBT

270. At 1980 prices, the trade balance showed a surplus of US$13 million in 1984. In 1985, there was a deficit of US$8 million which was expected to reach US$43 million in 1986. Imports which amounted to US$504 million in 1984 increased by almost 3.5 per cent and by 8 per cent in 1985 and 1986 respectively, while exports barely exceeded their 1984 level and estimated to record a slight increase in 1986. The worsening of the trade balance deficit is due to a drop in bauxite exports which is the main export commodity contributing around 95 per cent of foreign currency earnings. World prices for bauxite dropped in 1985 following the accumulation of unsold stocks and a slackening of world demand. Similarly, agricultural production stagnated and food requirements increased considerably necessitating additional imports.

271. During the period under review, payments which are largely dependent on the prices of bauxite and the fluctuations of the United States dollar went through a chronic deficit. The overall deficit of the balance of payments increased from US$11.4 million in 1984 to US$15.0 million then to US$17.1 million in 1985 and 1986, respectively. This was due to the worsening of the deficit in net unrequited transfers by US$0.6 million per year and the reduction in net capital inflows by 1.4 per cent per year (US$7.1 million in 1984 as compared to 6.9 million in 1986).

272. As of 31 December 1983, the total amount of external debt amounted to US$1,551.2 and the principal disbursed was US$1,194.3 million. Debt service as of 31 December 1984 was US$193.6 million including nearly US$94 million in principal and US$86.14 in interest due in 1984. This very heavy debt was used to finance both current consumer goods and some development projects undertaken after only preliminary feasibility studies. Strictly speaking, only those loans given to the mining sector were used in a rational manner but these represented only 8 per cent of the total oustanding debt.

273. The various monetary and financial measures adopted in Guinea in 1985 and 1986 have enabled the country to benefit from a stand-by agreement amounting to US$35 million from the IMF and structural adjustment loans of US$42 million from the World Bank in February 1986, in support of economic recovery. The restructuring exercise should make it possible for Guinea to obtain a rescheduling of the debt it owes to countries of the Paris Club. The intervention of international financial institutions enabled Guinea to reduce its arrears to US$86 million at the end of 1985.

VI. SECTORAL PERFORMANCE

A. Food and Agriculture

274. The agriculture sector contributed about 40.7 per cent of GDP, with an annual average growth rate of around 6 per cent in real terms. This performance is mainly due to the recent expansion of forestry which produced 36.6 per cent of the value added and registered a growth rate of 12.1 per cent during the period.

275. Agricultural production has lagged behind even after selling to national produce buying agencies ceased to be compulsory. Thus, the cereal deficit increased from 100,000 to 130,000 tonnes. With the exception of cotton, the other cash crops (coffee and oil palm) suffered from declining production and poor marketing in spite of higher producer prices. The bulk of the harvest was smuggled to the neighbouring countries. Finally, livestock suffered from low productivity and parasitosis which reduced the numbers.

B. Industry

276. Guinea alone produces 90 per cent of the bauxite on the continent and has more than a third of all world reserves. However, the contribution of the mining sector to GDP has deteriorated steadily, falling from nearly 22.6 per cent in 1980 to 1 per cent in 1985 and 1986. The value added by the sector fell by 1.4 per cent per year in real terms.

277. Three mining deposits are currently under exploitation: (a) the Sangaredi deposit which is exploited by the Compagnie des bauxites de Guinee (CBG) whose current production is 4.5 million tonnes of bauxite and a 100,000 tonnes of roasted bauxite (b) the Kindia deposits which have been exploited since 1974 by the Office des bauxites de Kindia (OBK) with the assistance of the USSR and with production of 3 million tonnes per year;

(c) The Fria deposits is exploited by a joint corporation operated by Aluminimum Pechinery (France) with a capacity of 700,000 tonnes of aluminia per year. The facilities of this factory are being renovated to adapt the aluminia produced to international specifications. The new installations were expected to be operational by July 1986. However, estimates for the 1986 production are far from optimistic in view of the low world demand for bauxite. Guinea is endowed with other mineral resources. These are diamonds, gold, iron ore (Mount Nimba) and uranium.

278. The manufacturing and energy sector contribute 2.7 and 1.2 per cent to GDP respectively and are the focus of the restructuring efforts being made in the public and parastatal sectors and of the development of small and medium-size enterprises. They were affected by (a) difficulties in securing raw materials; (b) the ageing and under-utilization of the existing production capacity; (c) the unrealistic prices at which products are sold as compared to actual production costs; and (d) ineffective management. Manufacturing industries operate at 10 per cent of capacity and their value added has fallen annually by 3.9 per cent in real terms while energy production fell by 4.8 per cent until 1986 when the rehabilitation of the "Grandes chutes" near Kindia boosted production.

VII. IMPLEMENTATION OF THE SUBSTANTIAL NEW PROGRAMME OF ACTION

279. Guinea has opted for World Bank Consultative Group meetings as the framework for consultation with funding sources. The first meeting was to be held on 23 February 1987. The preliminary step was the implementation of a national interim recovery programme for 1985 and 1986 which was intended to induce a GDP growth rate in real terms of 7.6 and 9.4 per cent respectively. In preparation for the Consultative Group meeting, a meeting of donors was also organized in October 1986, with the objective of securing the necessary funds to implement the national transport plan.

280. Since the adoption of the SNPA, aid flows to Guinea have fallen steadily from US$120.3 million in 1981 to US$78.1 million in 1983. In 1984, the trend reversed with inflows estimated at US$136.5 million, out of which nearly 96 per cent was concessional aid including 67.7 per cent from countries members of the Development Assistance Committee (DAC). Based on those figures, external assistance for 1985 and 1986 was expected to be US$143 and 172.5 million, respectively.

VIII. MEDIUM-TERM PROSPECTS

281. The above-mentioned aid flows are not expected to maintain the GDP growth rate in 1987 at its level of 1986. For 1987, a rate of 1.1 per cent in real terms is expected. This poor performance is due to (a) the slow pace of adjustment of the productive sector to the structural reforms; (b) the continued under-utilization of existing capacities; (c) the unenthusiastic response of foreign investors to the call made by the Government and (d) the slow recovery of the mining sector.

GUINEA BISSAU

I. OVERALL GROWTH PERFORMANCE

282. In 1985, real GDP growth recorded an increase of 2 per cent to $US151 million (1980 prices). The upswing in growth followed the implementation of the 1983-1986 four-year development plan. Overall economic growth is still heavily dependent on the growth of agriculture whose share of GDP was 53 per cent.

II. MAJOR DEVELOPMENT PROBLEMS AND POLICIES

283. Guinea Bissau is facing a number of problems particularly the acute shortage of qualified manpower, consumer goods and foreign exchange. In addition, since the 1983 drought which had brought down agricultural production considerably, the country has been facing persistent food deficits. The balance-of-payments deficit is growing so also is the external debt which is weighing down heavily on the economy. The persistent budget deficits are at the same time, hindering public investment.

284. To cope with this situation of continuing crisis, the government of Guinea Bissau prepared, under the first four-year development plan for the period 1983-1986, an overall development strategy designed to stabilize the financial situation of the country and bring about its economic recovery. The four-year plan gave top priority to the productive sectors. In the rural sector, the basic objective was to attain food self-sufficiency and increase in export earnings. Activities in this area are supported by those in transport, trade and finance that constitute the main components of the investment programme. The overall strategy of the plan is expected to be implemented in three phases: (a) Economic and financial stabilization; (b) National economic recovery; (c) Self-reliant economic development.

285. The Government had taken the following measures: (a) it devalued the Peso by 100 per cent and initiated a gradual weekly depreciation aimed at reaching 200 per cent devaluation in foreign currency terms; (b) increased the producer prices of agricultural products by an average of 70 per cent; (c) reorganized the two major state marketing enterprises - Armazens do Povo and SOCOMIN and (d) distributed in the rural areas certain basic consumer items obtained through balance-of-payments assistance.

III. EXPENDITURE ON GDP

286. In 1985, private consumption increased by nearly 19 per cent and public consumption by about 1.4 per cent. As a result of the financial stabilization measures implemented by the Government, there was a slight recovery in investments which, nevertheless, accounted for only 16.6 per cent of GDP at current prices. Exports, which were still at the 1984 level, accounted for only 9.5 per cent of GDP.

IV. PUBLIC FINANCE

287. The main problem of public finance remains the heavy budget deficit and its financing by the central bank. It should, however, be noted that there was a contraction in budget aggregates in the 1985-1986 fiscal year when compared to 1984-1985. Thus, as a result of the austerity measures and the restructuring of the public sector, the general budget deficit was reduced from $US29.5 million to $US21.3 million. This development corresponds to declines of nearly 27 per cent and 36.4 per cent, respectively, in total expenditure and revenue.

V. EXTERNAL TRADE, BALANCE OF PAYMENTS AND EXTERNAL DEBT

288. Guinea Bissau has a chronic external trade deficit. While there has virtually been no increase in exports since 1983, imports grew by 26 per cent in 1985 after a decline of nearly 20 per cent in 1984. The trade deficit was about $US123 million. There was a chronic current accounts deficit in the balance of payments which, during the period 1980-1985, accounted on average for 40 per cent of GDP. As of 31 December 1985, the external debt of Guinea-Bissau stood at $US179 million with debt servicing payments amounting to $US10 million.

VI. SECTORAL PERFORMANCE

A. Food and agriculture

289. Agriculture value added grew by 2.8 per cent in 1986 after a sharp decline of about 15 per cent in 1985. That revival in the growth of the agricultural sector was largely due to the various measures taken by the Government under the economic and fianncial stabilization programme. As part of the package, the World Bank financed a programme for importing essentialagricultural inputs, machinery and spare parts. The Bank is also preparing a large-scale assistance programme for the agricultural sector costing a total of $US20 million. It includes incentives to farmers and appropriate support for extension services.

290. Guinea Bissau also received considerable assistance from FAO in the areas of planning, food security, the development of seeds, forestry planning and legislation for the development of 2.6 million hectares of forest with vital species, livestock protection and the development of fisheries. However, the country still remains heavily dependent on food aid. Thus, World Food Programme assistance for the period 1984-1987 is estimated at 15,000 tons of foodstuffs.

B. Manufacturing

291. Value added by the manufacturing sector, which barely attained 2 per cent of GDP in 1985, has virtually remained the same since 1982 because of a shortage of spare parts and difficulties in securing supplies of raw materials. Manufacturing output is dominated by the agro-food industries sector which produces 75 per cent of the manufactured items consumed and more than 50 per cent of the jobs in the sector.

VII. IMPLEMENTATION OF THE SUBSTANTIAL NEW PROGRAMME OF ACTION

292. The first roundtable of the development partners of Guinea-Bissau was organized in May 1984 in Lisbon, Portugal. The total cost of the projects submitted was $US249 million of which 118 million or 47.4 per cent was supposed to be direct project assistance. About $US161.9 million was pledged. Since then, no evaluation of the implementation of the investment programme has been undertaken. However, a sectoral consultation on agriculture was organized at the end of 1986. It made it possible to correct the imbalances in the allocation of funds which, until 1983, had given priority to infrastructure at the expense of food production. The activities are supported by a special programme for assistance to Guinea-Bissau drawn up in July 1985 following the study mission of the United Nations Secretary-General and measures taken under the economic and financial stabilization programme.

293. According to available estimates, flows of financial resources were favourable in 1985 and 1986 increasing from $US85.6 million to $US91.6 million. They were mainly composed of aid (93.3 per cent) on concessional terms.

VIII. MEDIUM-TERM PROSPECTS

294. With the continuation of the effective implementation of the economic and financial stabilization programme combined with favourable weather conditions for agriculture to flourish, the 5 per cent average annual growth in GDP projected in the economic development plan could be attained. The optimistic growth forecasts are based on existing development potential such as fertile land, considerable fishing resources, considerable forestry and mineral resources.

LESOTHO

I. OVERALL GROWTH PERFORMANCE

295. The Lesotho economy witnessed a turn-around in 1984 when Real GDP grew by 3.7 per cent after two consequetive years of an average decline of 0.7 per cent in 1982-1983. The growth momentum was maintained in 1985, though at a slower pace, as GDP is estimated to have registered a 2.4 per cent increase in real terms. In both years, the major impulse came from the agriculture and manufacturing sectors which posted growth rates of 25.1 and 43.5 per cent in 1985 and 26.4 and 31 per cent in 1986, respectively. On a per capita basis, however, the gain in GDP growth in 1985 was almost matched by the rate of population growth which resulted in a mere 0.1 per cent increase in per capita GDP.

296. The inflation rate averaged around 15 per cent in 1985 but expected to have increased significantly in 1986 following increases in sales tax up to 12 per cent from its previous level of 6 per cent. Also the progressive depreciation of the RSA Rand, hence the Maloti, had serious implications for domestic inflation.

II. MAJOR DEVELOPMENT PROBLEMS AND POLICIES

297. The landlockednes of Lesotho and its heavy economic dependence on South Africa (RSA) continue to be the major obstacles to economic growth and development performance. Political tensions in the subregion exposes Lesotho to an economic back-lash by RSA, a country which absorbs 90 per cent of its exports, provides 95 per cent of its imports and employs about 23 per cent of its labour force in various economic activities, notably the mining sector. The depreciation of the Rand in 1985 resulted into a de-facto devaluation of the loti leading to serious implications not only on domestic inflation but also on Lesotho's external debt obligations and increased non-budgeted outlays which enlarged the budget deficit in FY85/86. Further, about 60-70 per cent of Lesotho's recurrent income comes from the common Customs Revenue Pool. This situation poses problems of: excessive dependence on one source of revenue; loss of fiscal discretion; the price raising effect of the high common external tariff barriers to trade and the possible negative polarization of development.

298. The alternatives to widen the revenue base is severely limited by the slow growth of the taxable sectors of the economy. Income tax rates are already high, and the burden they impose on tax payers has been exacerbated by the effects of inflation. In order to broaden the tax base the government had taken the following measures: (a) Company tax rate were increased from 37.5 to 45 per cent other than company profits earned from manufacturing activity which will continue to be taxed at 37.5 per cent; (b) to avoid tax evasion on savings deposit and interest, financial institutions are required to deduct 10 per cent at source on interest income over M240 per annum; (c) a 10 per cent deduction on contract payments by the government for its transport and construction contracts; and (d) increases in the rate of sales tax from 6 to 12 per cent.

299. The government recognizes that [illegible] of huge public spending aimed at enhancing the country's productive [illegible] production and employment have shown negligible or no response at all [illegible] investments. This is particularly evident in the agricultural [illegible] many project initiatives had failed and which had exhibited a long-term trend of declining output and hence an increased dependence on food imports.

300. The main objective of the Fourth National Development Plan (1986/87-1990/91) which was launched in 1986 is to maximize national income and employment. To achieve this, the government plans to: increase agricultural production through expanded irrigational activities; develop water and energy resources; promote domestic resource-based industries; encourage domestic and foreign private initiative in industry and mining; establish labour-intensive agricultural/rural development programmes; and restructure the educational sector as well as implement national training and employment policies [illegible] needs of the economy.

III. [illegible]

301. The most striking feature [illegible] from total available resources and the [illegible] that the country consumes more than it produces [illegible] for instance, GDP was about 49 per cent [illegible] expenditure. This wide gap is filled by [illegible] from abroad. Gross fixed capital [illegible] in absolute terms in 1985 compared to the previous [illegible] GDP, it increased from 30 per cent in 1984 to 3[illegible] the high increases in both private and public investment.

302. The budget for FY[illegible] of M403.3 million [illegible] amount M197.9 million which is up 19 per cent on the [illegible] for recurrent expenditure, is allocated for capital expenditure [illegible] FY85/86 appropriations. which together represent a 30 per cent [illegible] growth compared to Statutory expenditures at M83.[illegible] towards debt service FY85/86 (at M62 million), [illegible] payments of principal of payments: interest payments [illegible] M41.1 million.

303. A considerable drop in [illegible] government finance during FY86/87 due to a substantial [illegible] share of the common customs revenue pool [illegible] million in FY85/86. Government revenue is heavily [illegible] (averaging 60-70 per annum) and this [illegible] Recurrent revenue is estimated at [illegible] terms over the FY85/86 intake of M[illegible] the current level of inflation, this is considerable [illegible] in real terms. The revenue short fall will be made up largely from [illegible] development grant: M93.36 million, concessionary [illegible] commercial bank financing of M78.23 million.

V. EXTERNAL TRADE, BALANCE OF PAYMENTS AND EXTERNAL DEBT

304. Following the sharp increase in exports of manufactures (textiles, clothing, footwear, wool and mohair and canned food) total export receipts rose from M41.8 in 1984 to M47 million in 1985 while imports increased from KM639.8 million in 1984 to M756 million in 1985 accounting for 64 per cent of GNP. The upsurge in imports is due to the high growth of final consumption expenditures induced by increases in salaries of civil servants and by larger migrant worker remittances. These remittances which finance the bulk of Lesotho's imports rose from M507 million im 1984 to M600 million in 1985 or about 50 per cent of GNP.

305. The current account of the balance of payments which suffered deficits from 1981 to 1983 showed a surplus of M37.5 million and M30 million in 1984 and 1985, respectively. This sudden shift is attributable to a sharp increase in unrequited transfers, resulting from a big increase in Southern African Customs Union compensation from M81.7 million in 1983 to M129.8 million in 1984. In 1985, the current account surplus declined to M30 million as a result of only slight growth in unrequited transfers and higher imports.

306. At end-1985, the total external outstanding public debt amounted to M400 million compared to M248 million at end-1984 or a 55 per cent increase. The increase reflects, to a large degree, the depreciation of the loti in 1985. Interest payments made up 3 per cent of the average outstanding debt in 1985, while the share of principal repayments was 8 per cent. About 85 per cent of the present outstanding external debt was contracted on concessionary terms. The government is taking very prudent measures to minimize its external debt obligations and to keep debt service within manageable proportions.

VI. SECTORAL PERFORMANCE

A. Food and Agriculture

307. Lesotho recorded a bumper harvest of crops as well as increased livestock production in 1985. Sorghum recorded a significant increase of 62 per cent from 33,768 tons in 1983/1984 to 54,823 tons in 1984/1985. Maize production increased by 16 per cent to 92,400 tons, while output of beans at 2,500 tons was double the 1984 production. However, wheat production was only 12,000 tons, 40 per cent less than in 1984.

308. Despite the good performance of the past two years, the grain balance sheet of the country leaves very much to be desired. For instance, the share of domestic production of maize, wheat and sorghum in total supply has decreased considerably since the bumper harvest of 1977/1978. By then the tonnage of domestic supply of these major cereals accounted for 64 per cent of total supply but dipped to a mere 38 per cent and 39 per cent in 1982/1983 and 1983/1984 respectively.

B. Manufacturing

309. Lesotho's manufacturing sector is relatively small contributing around 6 per cent to GDP in 1985. After a lull in 1983, the growth of the sector rebounded strongly in 1984 and 1985 recording rates of growth in value added of 44 and 31 per cent, respectively. This growth performance was brought about by a favourable industrial environment and the efforts of the Lesotho National Development Corporation (LNDC) in providing financial assistance to entrepreneurs for the establishment and operation of small scale manufacturing enterprises.

VII. IMPLEMENTATION OF THE SUBSTANTIAL NEW PROGRAMME OF ACTION

310. With the assistance of UNDP, Lesotho organized a roundtable meeting with donors from 14 to 17 May 1984 at which a Public Investment Programme (PIP) costing some M490 million was presented. This meeting was followed-up by sectoral consultations for water and sanitation held 11-13 June 1985. Special sectoral consultations for integrated rural development and for employment generation are planned for 1987.

311. According to a recent government submission, total resource requirement for the implementation of national programmes under the African Priority Programme for Economic Recovery, 1986-1990, amounts 119.6 million. Of this amount, US$58.4 million is expected to be available leaving a revenue gap of US$61.2 million.

VIII. MEDIUM-TERM PROSPECTS

312. The growth prospects for the Lesotho economy in 1986 appear better than they were in 1985. The rains that fell in 1985 resulted into a substantial improvement in agricultural sector performance in 1985/1986. In addition, the continued expansion of private investment and the sustenance of growth in trade and industry will be extremely vital to enhance the overall growth momentum. According to ECA preliminary estimates real GDP is expected to record growth rates of 3.1 per cent in 1986 and 2.8 per cent in 1987.

MALAWI

I. OVERALL GROWTH PERFORMANCE

313. Economic activity in Malawi in 1985 was less buoyant than in 1984. Real GDP increased by 2.8 per cent slightly below the 3.3 per cent growth rate registered in 1984. The lower output growth in 1985 was attributed largely to a combination of severe weather conditions and the lagged effects of commodity prices.

314. Heavy and prolonged rains produced mixed results for the agriculture sector. While it enhanced food crop production it retarded output of cash crops. As a result, agricultural output grew by a mere 0.9 per cent in 1985 compared to 5.6 per cent in 1984. This affected manufacturing output which showed a modest increase of only 1.3 per cent in 1985 as compared to a rate of 2.6 per cent increase in 1984. This sluggish growth in the key sectors had an unfavourable impact on the rest of the economy and thereby depressed overall real GDP growth.

315. The external trade position deteriorated in 1985 mainly because of low commodity prices for Malawi's main export crops and the devaluation of the Kwacha by 15 per cent in April 1985 which made import expensive. Consumer price inflation accelerated due largely to the continuing external transport bottleneck. The country's overall balance of payments deteriorated sharply recording a deficit of MK104.7 million as compared to a surplus of MK91 million in 1984.

II. MAJOR DEVELOPMENT PROBLEMS AND POLICIES

316. The Malawian economy is predominantly agriculture-based and hence the sluggish growth in the agriculture sector had an unfavourable impact on the rest of the economy depressing total domestic output. A combination of prolonged and heavy rains and the lagged effects of low commodity prices adversely affected agriculture production especially in the estate sector. As a result, the growth rate declined in all the productive sectors especially in the domestic resource-based manufacturing establishments.

317. Malawi's international trade outlets continue to pose serious problems to economic activity. Malawi Railways which carries the bulk of the country's exports and imports suffered greatly from the closure of the Beira and Nacala rail links to the Indian Ocean. Inflation accelerated in 1985 to 15.1 per cent from 11 per cent in 1984 largely as a result of higher freight cost for imports. The devaluation of the Malawi Kwacha has escalated import costs and hence contributed to the inflationary tendencies in the economy. The budget deficit has widened from K109.4 million in 1984/85 to a revised 1985/86 estimate of K115.9 million.

318. Implementation of the government's structural adjustment programme continued with the broad objective of increasing productivity and efficiency. A third structural adjustment loan covering the period 1985/86 - 1988/89 has been obtained from the World Bank and drawings have already started.

III. EXPENDITURE ON GDP

319. Nominal GDP increased by about 10 per cent in 1985, a decline from the high rate of 18 per cent in 1984. While real GDP slowed down, the growth of the GDP deflator also decelerated to 8.1 per cent in the year, chiefly because of a substantial decline in export prices.

320. Consumer price inflation increased from 11 per cent to 15 per cent in 1985. Total domestic supply grew at about 19 per cent due to the sizeable increases in net imports which changed from a deficit of K45 million in 1984 to a surplus of K93.4 million in 1985. This worsened position on the balance on goods and non-factor services was attributed to a combination of a slow-down in both export prices and volumes and a substantial increase in imports.

321. On the demand side, the rate of growth of total consumption was around 18 per cent in 1985 while as a percentage of GDP it increased from 83.4 per cent in 1984 to 89.3 per cent in 1985 due largely to increased private consumption. It is estimated that the share of consumption will drop to 86.8 per cent in 1986. As a result of the government's austerity measures, public consumption was contained at virtually zero growth in 1985.

322. Fixed investment absorbed a substantial proportion of the supply of goods and services to the economy increasing nonimally by about 26 per cent. The share of domestic savings in GDP declined from 16.6 per cent to 10.7 per cent between 1984 and 1985 but expected to rebound modestly to 13.2 per cent in 1986. Nonetheless, this considerable decline in domestic savings and of net long-term capital inflows meant that a large part of the investment was financed by drawing down on reserves.

IV. PUBLIC FINANCE

323. The revised budget estimates for 1985/86 indicate that recurrent revenue plus grants amounted to K497.8 million, an increase of 16 per cent over the original estimate of K429.2 million. This improvement in government receipts is attributed to increases from all major tax sources. Total expenditure will be K613.7 million of which recurrent expenditure claims K419.8 million while development expenditure will account for K167.9 million and extra-budgetary outlays another K26 million.

324. Despite improvements in the revenue account, the overall budget deficit is expected to record a 4 per cent increase to K115.9 million (6.2 per cent of GDP) above the original estimate of K111.7 million. To finance the deficit, the government expects K73.5 million from foreign loans and K42.4 million from domestic borrowing.

325. The 1986/87 budget estimate for total revenue is K564.4 million of which recurrent receipts will provide K512.1 million and grants of K52.3 million. On the expenditure side, the recurrent account will absorb K458.3 million and development expenditure will take the remaining K186.1 million. The overall budget deficit is expected to be reduced by 31 per cent to K80 million (3.9 per cent of GDP) compared to the 1985/86 revised estimate.

V. EXTERNAL TRADE, BALANCE OF PAYMENTS AND EXTERNAL DEBT

326. The balance of payments out-turn in 1985 was worse than expected as the deficits on both the current and capital accounts widened. The overall balance-of-payments position recorded a deficit of K104.7 million, compared to a surplus of K91 million in 1984. Preliminary estimates indicate a balance of payments surplus of K22.3 million in 1986.

327. In 1984, the current account deficit was only K22.7 million (0.9 per cent of GDP) but deteriorated sharply to K185.8 million in 1985 (9.8 per cent of GDP). Forecast for 1986 indicate a reduction in the current account deficit to K152.9 million. The surplus on merchandise trade was reduced by 40 per cent to K124.1 million in 1985 from a bigger surplus of K217.3 million in 1984. The smaller trade surplus resulted from a 6.1 per cent fall in total exports from K446.7 million in 1984 to K419.6 million in 1985 while import rose by 29 per cent to K295.5 million in 1985 from K228.9 million in 1984. However, total merchandise exports are projected to increase by 10 per cent to K475 million in 1986.

328. The non-factor services account recorded a deficit of K172.3 million in 1984 before widening to K217.5 million in 1985 and in 1986 the deficit is expected to worsen to K245.6 million. The deficit on factor services also deteriorated to K99.6 million from K81.2 million in 1984 due to large interest payments but a decline in the deficit is eminent in 1986 to K92.8 million. The balance on net long-term capital in 1985 was K49.3 million or 52 per cent below the 1984 level. It is estimated to increase to K207.5 million in 1986.

329. In 1985, total external debt of Malawi stood at K106.5 million with a debt service ratio of 23.6 per cent. As a result of negotiations on rescheduling of debt payments, the Government obtained a debt relief of K11.7 million in 1985 although this represented a considerable drop in relief measures compared to the 1984 benefits of K33.3 million. It was expected that the national debt service ratio would have increased when the debt relief to parastatal organization ceased by end-1986.

VI. SECTORAL PERFORMANCE

A. Food and Agriculture

330. Total agricultural output grew by 0.9 per cent in 1985 as against 5.6 per cent in 1984. The 0.8 per cent growth of small holder agriculture formed a striking contrast to that in 1984 when an exceptionally high rate of 7.2 per cent was recorded. The producer price increases offered by the Agricultural Marketing and Development Corporation (ADMARC) in 1984 did not produce the expected response in 1985 in terms of output. Although the general weather conditions were good for most crops, some producing regions were affected by prolonged and heavy rains which adversely affected overall crop output.

331. The growth of estate agriculture remained generally low at 1.2 per cent in 1985 as against zero growth in 1984. Despite the stimulus of relatively high producer prices in 1984 and 1985, tobacco output declined by 5.2 per cent in the south. Depressed internal prices were a major unfavourable factor for the other two major estate crops, tea and sugar.

332. The provision of agricultural inputs during 1985 were generally good. Sale of fertilizer,one of the most important input into small holder agriculture, went up by 21 per cent as compared to the 1984/84 growing season.

B. Manufacturing

333. Manufacturing output in 1985 increased by only 1.3 per cent compared to a rate of 2.6 per cent in 1984. Reflecting the reduced growth in the agricultural sector, output of large scale enterprises that process export crops declined by 5.4 per cent. Low growth in large scale agriculture were also responsible for the marginal increase of 0.7 per cent in manufacturing output for domestic consumption. The 1984 increase of 13.7 per cent for export industries decelerated to only 7.6 per cent in 1985. Only industries producing intermediate and capital goods produced relatively high growth rates in 1985 as they were stimulated by increased investment expenditure.

C. Transport and Communication

334. The performance of the transport sector also contributed to the slackened growth. Output in the sector declined by 0.9 per cent, pulled down by a sharp decline of 9.6 per cent in the air, rail and lake transport sub-sectors. This fall reflected in part a further switch of freight movement to road transport sub-sector which grew by 4 per cent. The traditional international trade route, i.e. rail links to Beira/Nacala in Mozambique continued to be virtually closed through out 1985 and the alternate "Northern Corridor" was only functioning partially.

335. In the communications sector, demand for telephone service increased by 10 per cent during 1985 while connections went up by around 9 per cent from 18,251 at end-1984 to 19,856 at end 1985. International links were also improved. International telephone exchange capacity was extended from 512 trunks to 1024 trunks and a facility for manual and automatic transmission provided.

IMPLEMENTATION OF THE SNPA

336. In 1985 the government concluded negotiation with the World Bank for a Third Structural Adjustment Loan (SALIII) totalling US$114 million. The IBRD/IDA will provide 28 million SDR; the special facility for sub-Saharan Africa contributing 38.7 million SDR and the remaining from bilateral donors.

337. In addition to this structural adjustment package, the Government continues to implement the three-year Extended Fund Facility Porgramme agreed iwth the IMF in 1983. Also the EEC will provide financial assistance to Malawi totalling 114 million ECU under Lome III.

338. In February, 1986 Malawi organized a consultative group meeting in Paris with the assistance of the World Bank. The donors endorsed Malawi's adjustment efforts, development strategies, and sectoral priorities and committed to assist the Government acquire the required capital inflows.

MEDIUM-TERM PROSPECTS

339. Forecast for 1986 show significant improvement in overall output conditioned on an expansion in agricultural production especially small holder activities. The agriculture sector is expected to rebound from the 0.9 per cent growth rate recorded in 1985 to 4.8 per cent in 1986. Small-holder agriculture is projected to increase its output in current prices by K33.6 million to K837.8 million. Estate agriculture is also expected to show marked improvement. The spill-over effects of increased output in agriculture to other sectors is eminent as indicated by a projected growth in manufacturing of 3.6 per cent and the transport sector by 4.1 per cent. Overall output in real terms is projected to grow at 4.2 per cent in 1986 as compared to 2.8 per cent in 1985.

MALI

I. OVERALL GROWTH PERFORMANCE

340. The Malian economy seems to have recovered during 1985-1986 from the economic disturbances which followed the inflationary upsurge after Mali joined UMOA in June 1984. The resumption of normal rainfall which revived the agriculture sector triggered off relatively high economic growth in 1985. At 1981 prices, GDP rose by 7.1 per cent and stood at CFAF 412.4 billion compared to CFAF 384.9 billion in 1984. But the economic recovery slowed down in 1986 when the growth rate of GDP in real terms fell by 4.1 per cent. During the same period, the overall balance of external payments and that of the budget improved despite the external debt burden and stagnation in public revenue.

II. MAJOR DEVELOPMENT PROBLEMS AND POLICIES

341. During the period under review, the supply side of the Malian economy remained dependent on the weather which determined the situation in agriculture the main source of value added and a sector with a strong linkage effect on the rest of the economy. Agricultural production for both cash and food crops was revived as a result of the expansion of cultivated land and a more intensive use of agricultural inputs coupled with normal rainfall. However, the food situation remained precarious because of difficulties in building up stocks stemming from the length of the lean period. Industries, whose activities depend on agricultural performance did not react as expected to the recovery because they still had the same problems of management and organization of production.

342. Generally speaking, most of Mali's problems centre around: (a) the persistent imbalance and the State's liquidity and external accounts problems despite efforts to revive the economy; (b) the unsuitability of distribution channels tied in with the imperfect nature of the market. Thus, with respect to public finance, during the 1985 and 1986 fiscal years, considerable expenditure on personnel amounting to nearly 60 per cent of all recurrent expenditure was incurred and a considerable volume of debts matured while the resources of the *Caisse aoutonome d'amortissement* were definitely inadequate.

343. The restructuring excercise undertaken by the Government was somewhat hammpered by: (a) the inadequacy and the unpreditability of incomes, based in the main, on rural activities; (b) the lack of accompanying measures such as the placement of graduates; (c) problems in making savings of costs in the State sector; (d) the fact that some external financial assistance was not provided on time, and (e) the low liquidity of financial institutions such as the

..../..

Banque de développement du Mali (BDM) and the *Comptes cheques postaux* (CCP) which did not make it possible to inject enough dynamism into the productive capacity of the private sector. The loans portfolios of these two institutions were affected by the heavy debt of public corporations and enterprises and problems in cash allocation which resulted in considerable transfers among accounts to liquidate the current transactions of the State. Tus, on 31 December 1985, the debt due to BDM by COMIEX and SEPON and SCAER were estimated at 6.2 billion and 7 billion CFA francs respectively.

344. The external accounts still have deficits although the situation began to improve in 1984; this is due to the fact that they are mainly based on the cotton industry and developments in food production.

345. The main imbalance in the distribution channels was identified in the cereals market whose shortcomings with respect to the centralized mode of organization were aggravated until 1984 by considerable declines in food production. The liberalization excercise did not result in flexible prices since they remained unattractive; the producer's reaction to the announced prices was to become increasingly discriminatory depending on their cash requirements and the particular period of the season. It should also be pointed out that there are difficulties in decentralizing the activities of the *Office des produits agricoles du Mali* (OPAM) because of the absolute need to reduce operating expenses.

346. In view of the various imbalances, the Malian Government has begun implementing an economic and financial recovery and reform programme backed by IMF stand-by arrangements side by side with an economic reform programme concluded with the United States of America on 17 September 1985. As far as public finances are concerned, the activities undertaken with IMF assistance aim at: (a) clearing up the payments arrears of the public sector, improving revenue collection and substantially reducing expenditure; (b) as far as external payments are concerned, the aim is to balance current payments. Thus, in addition to the redundancies in the public service and the introduction of a selective hiring policy, the State has encouraged the voluntary departure of 600 civil servants spread out over a period of three years and supported by credit facilities. The UNDP is providing financial assistance for the preparation of projects for private enterprises and a reconversion and placement fund for those whose departure trims the public service.

347. As far as reforming the public sector is concerned, the Government has initiated a trimming exercise to match objectives and areas of intervention with costs and available resources. Support for a minimum guaranteed producer price and the redefinition of the supervisory role of the Government have made it possible to maintain the level of even minimal productive activities which should also be strengthened by the local counterpart fund for cereals, the programme guarantee and monitoring fund and the establishment of a genuine investment budget.

348. The implementation of the above-mentioned measures appears to give great satisfaction to the donors. However, the Government still has financial difficulties despite a marked improvement in the rate of revenue collection. There are also social tensions as a result of the lack of rapidly applicable accompanying measures for compensating and/or placing those who were laid off from the civil service.

III. EXPENDITURE ON GDP

349. During the 1985-1986 period, the share of final consumption in GDP shrunk from 89.2 per cent to 85.4 per cent. The share of private consumption declined from 78.1 per cent to 76.5 per cent while that of public consumption fell from 11.1 to 9.9 per cent. The resources deficit also fell from 19.6 per cent in 1985 to the equivalent of 15.4 per cent of GDP in 1986. The investment rate which stood at about 30.2 per cent remained relatively high making it necessary to secure external financing for capital formation amounting to 17.5 per cent of GDP per year.

IV. PUBLIC FINANCE

350. According to the data available on the implementation of the 1985 budget as at 30 September 1985, a clear improvement was noted in performance compared to the same period in the previous fiscal year as a result of the efforts made by the tax assessment and collection services within a difficult economic climate as well as cutbacks in expenditure. Thus, three months before the end of the financial year, implementation rates were 65 per cent for revenue (CFAF 38 billion compared to forecasts of CFAF 58.5 billion) and 66.5 per cent for expenditure totalling CFAF 38.9 billion. Tax revenue accounted for 69.1 per cent of resources while personnel costs dominated recurrent expenditure with 53.8 per cent.

351. The attempts to achieve economic recovery were continued during the 1986 fiscal year. The measures taken led to: (a) a stabilization of expenditure on salaries and scholarships at their 1985 level; (b) the establishment of a genuine investment budget; and, (c) the harmonization of customs procedures for revenue collection purposes.

352. The budget surplus was forecasted to be about CFAF 100 million. This forecast does not appear to have been achieved because of the crisis in the cotton industry and problems in obtaining cash to settle some operating expenditures. However, the deficit in the State's consolidated operations when compared to achievements was considerably reduced to about 1.2 per cent of GDP in 1985 and 0.2 per cent in 1986 as against 4.5 and 1.9 per cent in 1981 and 1984 respectively. The tax burden was equivalent to about 9.5 per cent of GDP.

V. EXTERNAL TRADE, BALANCE OF PAYMENTS AND EXTERNAL DEBT

353. Judging from the production statistics of cash crops and information on export earnings from the sales of cotton and gold, exports would appear to have declined by 6.6 per cent in 1985 and 17.3 per cent in 1986 corresponding, respectively, to earnings of CFAF 78.4 billion and 64.8 billion. The decline in cotton prices

of more than 45 per cent (CFAF 335 per kilo in 1985-1986 compared to CFAF 615 in the previous season) largely explains this trend aggravated by a decline in the livestock trade because of the need to reconstitute livestock after the losses of animals during the years of drought.

354. Imports (FOB) also declined by nearly 18 per cent in 1985 and 23 per cent in 1986, i.e. CFAF 132 billion in 1985 and 101.6 billion in 1986. This decline in imports was due mainly to: the decline in [illegible] such as cereals in 1986 and sugar in 1985 and [illegible] which was the result of good rainfall and the availability of considerable stocks of sugar; as well as the reduction in oil and natural gas prices and the decline in the United States Dollar which resulted in foreign exchange savings equivalent to CFAF 3.8 billion in 1985 and 2.7 billion in 1986.

355. Overall, the trade deficit was reduced from CFAF 77 billion in 1984 to CFAF 53.6 billion and 36.8 billion in 1985 and 1986 respectively. There was also an improvement in the balance of the current account with the deficit dropping from CFAF 55.4 billion to 40.4 billion. This recovery was the result of the favourable showing on the balance of unrequired transfers which, on average, compensated for 96.1 per cent of the deficit of the balance of services estimated at CFAF 78.4 billion and 65.2 billion in 1985 and 1986.

356. The overall balance-of-payments deficit which was CFAF 65.1 billion in 1984 (excluding the consolidation of CFAF 75 billion by the French treasury which in fact caused a surplus of CFAF 9.9 billion) was reduced to less than CFAF 20.7 billion in 1985 and then it fell below CFAF 1.6 billion in 1986 as a result of net capital flows estimated respectively at CFAF 34.7 billion and CFAF 38.8 billion. The financing of these deficits was estimated at CFAF 6.8 billion and 2.7 billion respectively of which CFAF 5.2 billion and 4.5 billion were for the repayment of debts and CFAF 1.[illegible] billion were for payments of [illegible] arrears.

357. The above reductions in deficits brought down the external debt servicing ratio to 5.2 per cent in 1985 and 8.8 per cent in 1986 compared to 13 per cent in 1984. On the basis of available projections, about $US 76.9 million was probably required to service the external debt in 1985 ($61.7 million for the principal and $US15.2 million for interest). It is expected to rise to $US 89.8 million in 1986: 73.5 million for the principal and 16.2 million for interest:

VI. SECTORAL PERFORMANCE

A. Food and Agriculture

358. In real terms this sector, which accounts for an average of 45.6 per cent of GDP grew by 3.3 per cent in 1985 and 5.0 per cent in 1986 after experiencing an annual average decline of 10.2 per cent between 1981 and 1984. Agriculture and stock breeding contribute, respectively, averages of 46.6 and 32.0 per cent of the sector's production while fisheries and forestry account for the remaining 21.4 per cent.

359. These performances are attributable to the clear upswing in agricultural

360. The danger of attacks by locusts and other pests that hung over the 1986-1987 crop season seems to have been contained despite the fact that considerable areas of land, estimated at 400,000 hectares, were infected.

361. There were increases in production of all crops: 10 per cent for food crops such as millet, sorghum and maize and 7.0 per cent for cash crops such as groundnuts and cotton. Trends in production figures show, however, that traditional methods of farming predominate and that the productivity of the sector, which is heavily dependent on rainfall, is low. Indeed, the production elasticity assessed on the basis of the cultivated areas is only 0.10 per cent for food crops and 0.23 per cent for cash crops. In addition to poor agricultural productivity, the marketing of foodstuffs is poor; this appears to be the result of the need to set up seed stocks and to meet requirements during the lean period and the fact that farmers are having problems adjusting to the new foodstuffs market liberalization measures.

362. The unfavourable lifestock situation stems from the policy being promoted by the authorities to limit the impact of drought which resulted in a decline of 10.6 per cent in real terms of the value added of the sector between 1981 and 1985. However, an improvement of 6.9 per cent was recorded in 1986.

B. Industry

363. The breakdown of value added of this sector, which on the average accounted for 12.7 per cent of GDP during the period under review was as follows: 53.7 per cent for buildings and public works; 19.5 per cent for food industries; 11.1 per cent for handicrafts; 7.0 per cent for textiles industries; 5.5 per cent for extractive industries and energy and 3.2 per cent for chemicals and building materials industries. The sector as a whole grew, in real terms, by 32.9 per cent in 1985 and 9.3 per cent in 1986. This increase in the value added of the sector which follows a period of stagnation and in some cases, a decline, is due to: (a) the improvement in production conditions of the textiles and food industries which benefited from performances in agriculture; (b) an adequate supply of energy following the filling of the Selingué dam; and, (c) the measures for restructuring the parastatal sector which, following the opening of the capital of the Société d'equipement du Mali (SEMA) and the reconstitution of the operating funds of TAMALI and COMATEX revived activities in the buildings and public works sector and made a portion of the manufacturing industries profitable again.

364. Activities in the extractive industries sector were marked by a decline in investments in the petroleum sector because of the decline in world prices and difficulties in selling the gold produced at Kalana and Loulo at a profit. However, prospects are promising.

VII. IMPLEMENTATION OF THE SUBSTANTIAL NEW PROGRAMME OF ACTION

365. As part of its implementation of the SNPA, Mali organized two roundtables with donors for the economic recovery and development of Mali. The first was in December 1982 to finalize the financing of the 1981-1985 five-year plan and the second was

in December 1985 for the financing of 12 priority projects. However, as a result of increased pressure on public funds, attention appeared to have been shifted to the priorities of the various financial recovery and reform programmes concluded with the International Monetary Fund and the economic reform programme signed with the United States of America.

366. Experience has showed the harmful effects of adjustment, stabilization or restructuring programmes undertaken in most African least developed countries. The market mechanisms are not adequate to manage growth and development in subsistence economies. Indeed, although the level of growth in 1985 was substantial, one of the hopes of the Government for the implementation of the third stand-by arrangement signed with the IMF was to secure support from donors for the cotton industry during the two or three upcoming seasons. Despite the good performances and promises made to support production, the cotton sector was affected by the decline in prices. The same thing happened with respect to the settlement of the public debts estimated at 2.8 billion CFA francs for the 1985 financial year.

367. The latest statistics on aid flows show a total net flow of $US 316.6 million for 1984 including $US 95.9 million in concessionary aid and gifts the bulk of which came from Development Assistance Committee (DAC) member countries.

VIII. MEDIUM-TERM PROSPECTS

368. Growth prospects for 1987 are expected to be lower than for 1986 with real GDP growth projected at 3.3 per cent. Growth rates are expected to decline by at least half for all the sectors estimated at 2.5 per cent for the primary sector, 4.2 per cent for secondary production and 3.8 per cent for the tertiary sector. The contraction in domestic demand should trigger off a rise in domestic savings. However, a sharp deterioration is expected in the current account and the overall balance of payments which should stand, respectively, at -73.3 billion CFA francs and -39.7 billion CFA francs.

MAURITANIA

I. OVERALL GROWTH PERFORMANCE

369. After a period of sustained growth during the 1960s, the economy of Mauritania stagnated until the mid-1980s. This situation was the result of recent years of warfare and the low world market prices for iron ore,a major foreign exchange earner. However, with the implementation of austerity measures and improvement in climatic conditions, Mauritania's GDP (1982 constant factor costs) increased at an average annual rate of 2 per cent in 1985-1986.

II. MAJOR DEVELOPMENT PROBLEMS AND POLICIES

370. In November 1985, the Government prepared in co-operation with the IMF and the World Bank, an economic and financial recovery programme covering 1985-1988. The objectives of the programme are:

(a) to achieve and maintain a real growth rate of 4 per cent;
(b) to improve investment productivity;
(c) to balance the 1986 State budget and gradually to establish a budget which would cover 15 per cent of public investment in 1988
(d) to reduce and bring down to 10 per cent of GDP the 1988 balance-of-payments deficit.

371. Based on a good performance rating under an IMF supported programme based on an agreement signed in 1985, another standy-by credit of 12 million SDRS ($US14.1 million) was provided to Mauritania on 28 April 1986 for a 12 subsequent months.

III. EXPENDITURE ON GDP

372. Total consumption which accounted for 100.8 per cent of GDP in 1984 increased by 8.2 per cent in 1985 and by 1.4 per cent in 1986 or an average of around 88.7 per cent of GDP. Private consumption alone accounted for 83 per cent of GDP. From -0.8 per cent of GDP in 1986, gross domestic savings accounted for 4.7 per cent in 1985 and 11 per cent in 1986 thus providing for nearly half of total gross investment. Gross fixed capital formation, which had fallen by 21 per cent in 1985, went up by 26 per cent in 1986, accounting for 24 per cent of GDP at current market prices. Imports of goods and services account for 73 per cent of GDP while exports account for 59.5 per cent. These financial and trade deficits keep economic development dependent on external inputs.

IV. PUBLIC FINANCE

373. By pursuing a policy of austerity in order to limit administrative expenses, revising customs tarriffs and strengthening the tax collection services, Mauritania has been able this year to achieve a budget surplus of $698 million. However, expenditure to pay off the foreign debt continued in deficit. In this regard, the foreign debt for 1986 has been rescheduled over nine years with four years grace period following a Paris Club meeting held in mid-May, 1986.

V. EXTERNAL TRADE, BALANCE OF PAYMENTS AND EXTERNAL DEBT

374. The trade surplus which amounted to $US10.4 million at current prices in 1985 is reported to have increased to $US32.7 million in 1986. Food aid annually accounts for nearly 10 per cent of total imports while iron ore and fish make up more than 99.5 per cent of exports.

375. The services account deficit which had in 1985 decreased by 5.8 per cent as compared to 1984, increased in 1986 to $US7.4 million thus exceeding the level of two years ago. The interests due have decreased by $US0.1 million as compared to 1985 in which year the decline was by $US2.6 million.

376. Even though increasing by 9.5 per cent, private and public transfers remain too low to cope with the current account deficit which has been constantly declining since 1984 - 34.7 per cent in 1985 and 15 per cent in 1986. The overall balance-of-payments deficit increased by 8.3 per cent in 1985 and 33.5 per cent in 1986 to equal 17.7 per cent of GDP. The net financing required is calculated at $US88 million. After rescheduling, debt servicing (interests and principal) declined from $US199.6 million or 29.6 per cent of GDP to $US65.9 million or 9.8 per cent of GDP bringing total external financing required to $US153.9 million. Of this amount, 35.7 per cent is financed out of current official development assistance and 73.6 per cent financed out of capital inputs thereby achieving a surplus of $US14.4 million.

VI. SECTORAL PERFORMANCE

A. Food and agriculture

377. Traditionally, Mauritania has a rural economy with a predominant livestock subsector that provides a livelihood for the bulk of the rural population. Very substantial quantities of cattle are exported. Livestock grazing accounts annually for more than 16 per cent of GDP. However, in 1982/83 and in 1983/84, grazing land was so reduced that cattle could not be kept and had to migrate or die by starvation if not by large-scale slaughtering.

378. **Progressively**, irrigated farming is taking the place of traditional rain-fed farming. However, the process is being held back by the unresolved problems of the Manantali Dam which have to do with power distribution, agricultural development and navigability of the river. In 1982-1984, the consumable harvest, barring losses and processing, was 15,000-20,000 tons which covered less than 10 per cent of the country's needs.

379. In 1985, the rains which were satisfactory both in quantity and distribution produced a harvest of 75,000 tons. Nevertheless, this output covered only 25 per cent of consumer needs. This year, Mauritania's emergency food aid needs are estimated at nearly 100,000 tons of cereal. Food imports and aid continues to be necessary to feed the people of Mauritania. However, the food aid which was distributed free of charge in past years has negatively affected the grain produce market. For this reason a food-for-work programme co-ordinated by the food security commission and implemented with the technical assistance of local miniter ministries and authorities was adopted in May 1985 to put an end to food dependency. Fishing provides more than half the total exports. In 1984, the figure was 50.[illegible] per cent, in 1985 it was [illegible]9.2 per cent and was 51.2 per cent in 1986.

B. Industry

380. Generally, industry has remained little developed and unprofitable because of erroneous investment decisions. The mining sector, that of iron in particular, constitutes the main source of exports for the economy. Towards the end of the 1960s, it contributed 30 per cent of GDP. In the late 1970s, it was providing 11 per cent and since 198[illegible] has been providing more than 14 per cent. Other minerals are copper (the production of which was stopped in 1978 and should be resumed in 1987), gypsum and phosphates which have yet to be exploited. The 1985-1989 public investment programme accords priority to the maintenance of the existing plants and the intensification of mineral and petroleum production.

VII. TRANSPORT AND COMMUNICATIONS

381. The 'friendship port' located a few kilometres from Nouachkchott received its first ships this year. It eliminates the transit of imports through Dakar which is 600 km. away and could serve Mali when the 'road of hope' being built is completed. Since the beginning of January, telephone subscribers in Nouackchott, Nouadhibou, Rosso and Akjoujt have direct access to automatic international and domestic connections.

VIII. IMPLEMENTATION OF THE SUBSTANTIAL NEW PROGRAMME OF ACTION

382. The results achieved with external assistance are very encouraging. The debt rescheduling and LDC club membership of 1986 augur for the coming years a rehabilitation and recovery of the economy. As far back as 1985, Mauritania received from the United Nations system more than $US30 million. One third of this was provided under technical assistance, another third under food aid and the rest under development assistance.

IX. MEDIUM-TERM PROSPECTS

383. The basic problems of Mauritania lie in the fact that being an agricultural country, its third economic and social development plan gave priority to infrastructures (50 per cent of investment) while its fourth development plan gave priority to the mining sector and infrastructure by providing them with 31 and 20 per cent respectively, of the overall investment. In contrast with these policy orientations of the past, the 1985-1988 economic and financial recovery plan accorded priority to the development of agricultural production (36.6 per cent) rural and urban water supply (22.7 per cetn) and with the benefits expected to accrue from the Manantali dam, augur for the coming years a radical drop in the need for food aid if not actual food self sufficiency.

NIGER

I. OVERALL GROWTH PERFORMANCE

384. In 1985-1986, Niger went through economic and fianncial difficulties characterized by: (a) a marked decline in the world prices of uranium, the main export product of the country which widened the trade balance deficit. (b) a heavier external debt-servicing burden which reached a record level of nearly 47 per cent of export earnings despite the fact that the payments were rescheduled several times and the Governments introduced considerable readjustment measures.

385. Thus, after four consecutive years of negative growth between 1981 and 1984, the GDP at 1980 prices, improved considerably in 1985 when it registered a growth rate of 11.0 per cent. In 1986, however, its growth rate fell to 5.6 per cent. In real terms, the GDP in 1985 was CFAF 460.2 billion and CFAF 486.0 billion in 1986.

II. MAJOR DEVELOPMENT PROBLEMS AND POLICIES

386. Niger has three types of problems: (a) problems relating to the physical environment, (b) institutional problems, and (c) problems of management. The physical problems have to do with adverse weather conditions such as persistent cycles of drought and very high temperatures. They have hampered the activities of the rural sector which provides the bulk of value added and is the main source of durable growth. The decline in agricultural production and the loss of a considerable portion of the country's livestock affected all sectors of the economy: almost all the agro-industries, particularly oil mills, came to a standstill, food imports rose sharply and caused an imbalance in external payments and many people moved to Northern Nigeria and Northern Benin.

387. As a result of the uranium boom, the State created relatively cumbersome institutional structures, was omni present in almost all sectors of the economy and hired a plethora of civil servants. As a result, an expanded system of subsidies was set up to offset the losses of the state sector: this created considerable distortions in the price structure and drove up current expenditure, particularly wages, to a level that the public finance structure of a low-income economy could not support.

388. As far as human resources management was concerned, the policy which was adopted to promote the private sector did not create enough jobs to reduce the Government expenditures. Some mistakes were made with respect to the allocation and maintenance of physical and financial capital: large infrastructural projects were implemented mostly in the urban centres at the expense of directly productive sectors and as a result of the reduction in capital expenditure, the existing capital stock became obsolete.

389. The relatively ambitious investment policy which was pursued until 1983 resulted in considerable official debt to local financial institutions and to the outside world. Overall, the above-mentioned imbalance in public finance was compounded by a persistent deficit in external payments which were mainly dependent on the activities of the modern sector and on uranium prices.

390. In order to deal with the various constraints, the Government of Niger adopted in 1983 drastic measures initially designed to reduce domestic and external financial imbalances. The measures were supported by three stand-by arrangements concluded with the International Monetary Fund (IMF) and a structural adjustment programme concluded with the World Bank worth about $US16 million which was to take effect on 1 April 1986.

391. Government action in 1985-1986 focussed on (a) the management of public finances, (b) agricultural policy, and (c) the strengthening of the country's physical and human resources capacity. The reform of public finances covered both expenditure and the mobilization of resources by (a) reducing current expenditure, (b) adopting a rolling triennial programmes approach to public investments, (c) mobilizing domestic resources particularly by strengthening tax collection structures and making them much more efficient, and (d) ensuring that the external loans contracted would not affect the country's ability to honour its debt-servicing commitments.

392. The freeze in the recruitment of some categories of civil servants and the introduction of charges for the use of public services generated some savings. However, the growth rate of capital expenditure which was 3 per cent in 1985-1986 was well below the target objective of 10 per cent. The investments programme adopted for 1985-1986 and 1987-1988 which was geared to the directly productive branches and the maintenance of existing socio-economic infrastructure was already higher than the objectives set in terms of investment rates (15.9 per cent in 1985 and 1986). Finally, a value added tax was introduced and the tax on petroleum products was revised as a result of the reform of the system of taxation.

393. The new policy on indebtedness which was designed to offset the decline in the supply of external credit resulted in less borrowing from abroad and greater domestic borrowing. The State gradually withdrew from public enterprises and opened up the capital of the major state enterprises and corporations, markets were liberalized and a restrictive price subsidies policy was introduced.

394. As a result of the agricultural policy implemented during the period under review, the monopoly of the office des produits vivriers due Niger (OPVN) on the marketing of grains was withdrawn since the Office had to set up a secutiry stock of not more than 80,000 tons. The policy made producer prices purely indicative, liberalized grain imports and exports, abolished subsidies on the prices of agricultural equipment and restructured agricultural credit institutions.

III. EXPENDITURE ON GDP

395. The serious economic recession of 1984 caused a sharp decline in the rate of investments to 1.3 per cent as against 11.4 per cent in 1983 and a decline in domestic savings equivalent to 4.5 per cent of GDP for a deficit in resources of about 5.8 per cent of GDP. In 1985 and 1986 public consumption levelled off at around 12.7 per cent of GDP while private consumption shrunk to about 82.3 per cent of GDP as a result of the control of public spending and redundancies which cut down the disposable incomes of households. During the same period, the investment rate grew in real terms from 11.8 to 13.3 per cent while domestic savings rose by the equivalent of 5.9 per cent of GDP to 10.6 per cent; thus, the external financing required for capital formation declined from the equivalent of 5.9 per cent to 2.7 per cent of GDP. Overall, out of a GDP of CFAF 460.2 billion in 1985 at 1980 prices, CFAF 432.9 billion went into consumption and CFAF 54.3 billion into investments; the resources deficit was CFAF 27 billion. In 1986, those aggregates were CFAF 486 billion, CFAF 435.9, CFAF 63.2 and CFAF 13.1 billion respectively.

IV. PUBLIC FINANCE

396. The 1984-1985 budget deficit was CFAF 388 million particularly as a result of the decline in tax revenue of 2.4 per cent; expenditure grew by 12.2 per cent. In 1985-1986, the budget surplus of CFAF 4.0 billion at 31 March 1986 deteriorated by the end of the fiscal year (30 September 1986) despite the budget austerity measures implemented by the Government. The projected deficit was to be about CFAF 5.9 billion, i.e., earnings of CFAF 74 billion and spending of CFAF 79.9 billion. However, the ratio of taxes to GDP which remained relatively low accounted for an average of 8.2 per cent of GDP.

397. The constraints affecting the State budget of Niger include: (a) the heavy dependence on earnings derived from activities of the modern and external trade sectors which have declined somewhat over the past few years; (b) extensive borrowing at commercial rates to support the five-year development plan and offset the decline in uranium earnings; (c) the weakness of the revenue base aggravated by the freeze in salaries; (d) the unsuitability of the value added tax system which was partly responsible for the decline in economic activity; and (e) the inefficiency of the State sector. There was also a deterioration in capital stock as a result of the levelling off in capital expenditure.

V. EXTERNAL TRADE, BALANCE OF PAYMENTS AND EXTERNAL DEBT

398. During the 1985-1986 period, two types of commodities accounted for more than 96 per cent of Niger's exports; they were uranium, which accounted for 85.3 per cent of export earnings and livestock products which provided 10.7 per cent of such earnings. These two groups of products depend on factors beyond

Best copy available

the control of the Government of Niger i.e., world demand and prices for uranium and weather conditions for livestock products. On the whole, export earnings should begin to increase considerably in 1986 to CFAF 130.1 billion after a decline of 15.8 per cent in 1985 to CFAF 112.6 billion which corresponded to a decline in uranium earnings of 4.6 per cent and of livestock earnings of 16.7 per cent.

399. The composition and volume of imports depend on weather conditions. Foodstuffs, energy products and raw materials and capital equipment accounted respectively for an average of 23.5 per cent, 20.5 per cent and 25.2 per cent of imports. The decline in manufacturing activities resulted in a stabilization of the oil bill. Thus, imports declined by about 11.1 per cent in 1986 as a result of good harvests and the selective imports policy introduced by the Government. The value of imports consequently dropped to CFAF 141.3 billion as against 158.9 billion in 1985. Note should also be taken of the importance of the budget line on other imported products (which account for an average of 30.6 per cent of the total) on which little information is available.

400. The sharp decline in export earnings in 1985 caused a trade deficit of about CFAF 46.3 billion and resulted in a 70.9 per cent coverage of imports by exports. The situation was expected to improve in 1986 and bring the deficit down to CFAF 11.2 billion and raise the rate of coverage of imports by exports to about 92.1 per cent.

401. The deficit in the 1985 trade balance was aggravated by the deficit in services with an increase of nearly 12 per cent in unrequited transfers (mainly grants). Thus, the deficit in current payments more than doubled to CFAF 25.7 billion as against CFAF 10.5 billion in 1984. In 1985, net capital flows remained relatively low causing a total overall deficit of CFAF 16.6 billion financed largely through drawings on IMF resources. The clear reduction in the current payments deficit in 1986 was not supported by significant capital movements. The overall deficit was therefore reduced by CFAF 1.5 billion only.

402. Niger's balance-of-payments problems are linked in the main to the its heavy dependence on uranium because the food self-sufficiency policy initiated by the Government seems to have brought foodstuffs imports under control. Capital inflows in 1985 and 1986 were not enough to cover the debts contracted during the uranium boom.

403. The volume and servicing of the external public debt remain critical despite the fact that the Club de Paris agreed to reschedule debt payments in 1983, 1984 and 1985 and the London Club also agreed to such an exercise in 1984. Such rescheduling reduced the debt servicing ratio from 34.5 per cent to 32.2 per cent in 1983, 46.5 per cent, 30.5 per cent in 1984 and 46.9 per cent to 33.3 per cent in 1985. Although the rescheduling exercises produced an upturn in short-term public investments, they nevertheless mortgage the country's solvency in the medium-term particularly because of relatively high interests on overdue payments.

404. According to available estimates, the total outstanding external public debt increased from CFAF 400 billion in 1984 to 438.6 billion in 1985. only CFAF 51.5 billion was repaid in 1984 and CFAF 48.3 billion was repaid in 1985. CFAF 66 billion and 60.5 billion were required to service that debt before the rescheduling exercises in 1984 and 1985 respectively, i.e., CFAF 43.2 and 43 billion respectively after the rescheduling. The decline initiated in 1985 and which appears to have continued in 1986 should be credited to both the rescheduling exercises and the selective policy followed by the Government with respect to the financing of projects from external resources.

VI. SECTORAL PERFORMANCE

A. Food and agriculture

405. The agriculture sector is the most important in the economy and accounts for about 45.4 per cent of GDP formation, 20 per cent of export earnings and 15 per cent of public spending. In addition, it provides a livelihood for 80 per cent of the population. It is dominated by subsistence farming and is heavily dependent on the vicissitudes of the weather. Thus, the abundant and well distributed rains that fell in 1985 and 1986 triggered off a recovery in agricultural production and a rehabilitation of the livestock population after the 1983-1984 and 1984-1985 periods of drought. Between 80 and 90 per cent of the grazing land in the livestock breeding areas became usable again. However, heavy locust attacks that destroyed areas of up to 350,000 hectares around Ouallam, Filingué, Tahoua and Joure affected the harvests.

406. After increasing by nearly 57.1 per cent in 1985, foodstuffs production declined slightly during the following crop season. The harvests of millet, sorghum and beans were satisfactory mainly because of financial support and supervision provided by the Government as part of its food self-sufficiency policy. As a result of such assistance, the land used to grow cash crops whose production stagnated was planted with food crops.

407. In real terms, the agriculture sector recorded growth rates of 17.3 and 6.7 per cent in 1985 and 1986 as against - 12.9 per cent in 1984. The growth rate of agriculture fell by 19.9 per cent to only 1 per cent while that of stock breeding declined from 19.9 per cent to nearly 12 per cent.

B. Industry

408. This sector continued to be dominated by the production of uranium; Niger is the tenth world producer and fifth exporter of the metal which accounted for about 7.7 per cent of GDP formation during the period under review and registered an average annual growth rate of about -3.2 per cent. The slump which has affected the world uranium market for a number of years brought about a stagnation in

delivery prices, a decline in production from 3354 tons in 1984 to 3179 tons and then 2917 tons in 1985 and 1986 while sales recovered somewhat in 1986 after a decline of about 13.7 per cent in 1985.

409. Uranium is still a strategic product in the investment policy of Niger. The Government was compelled to scale down its investment programme following the sharp decline in prices and a contraction in the demand for uranium ore. However, prospects in the mining sector are still bright; there are considerable reserves of molybdenum, coal, iron, cassiterite and traces of oil in the eastern Niger River basin and the Lake Chad basin.

410. The activities of manufacturing industries are still small in volume and accounted for about 1.6 per cent of GDP during the period under review. They were hampered by the small size of the local market which was linked to the small population and low incomes, the land-locked nature of the country and its consequences on production costs, the shortage of raw materials particularly in periods of drought and the shortage of management and supervisory staff. The installed capacity of almost all the agro-industries is considerably under-utilized. Overall, the activities of manufacturing industries declined in real terms from 15.0 per cent in 1985 to 2.9 per cent in 1986. The State is using the OPEN and Centre des Metiers d'Art programmes to promote the very dynamic handicrafts sector.

411. Niger is still heavily dependent on imported energy products. The coal mine which was commissioned in 1980 supplies coal almost exclusively to mining companies. This resulted in considerable deforestation. During the period under review, the energy sector, which accounted for about 2.1 per cent of GDP, grew at an annual average rate of 12.5 per cent. The building and public works sector is the one that benefitted most from the economic boom brought about by the considerable public investments derived from uranium earnings. Over the past few years, there was a decline in activities; the growth rate in real terms was 14.5 per cent in 1986 as against 16.2 per cent in 1985 and the annual average contribution to GDP was around 3.7 per cent.

VII. IMPLEMENTATION OF THE SUBSTANTIAL NEW PROGRAMME OF ACTION

412. Niger, has not yet organized any review meetings. The most recent account of external aid flows to Niger dates back to 1984. It shows the predominance of aid from the Development Assistance Committee (DAC) member countries. Overall external financial assistance has been declining since 1981; it fell from $US371.2 million to 139.7 million in 1984 particularly as a result of the decline of more than 92 per cent in assistance from OPEC member countries between 1982 and

1984 and the deterioration in non-concessional aid flows. The composition of aid flows shows (a) the determination of the State to reduce its dependence on external loans and (b) the willingness of donor countries to increase the portion of grants which rose from 35.9 per cent in 1981 to 87.3 per cent in 1984 even though that increase was not enough to meet external capital requirements. The declining trend in net flows of non-concessional aid which begun in 1984 stems from the considerable external commitments and the ambitious public investments programme implemented during the uranium boom.

413. According to the initial estimates available for 1985, Niger's external financing requirements were probably CFAF 90.2 million; they were covered by CFAF 58.1 billion in grants, CFAF 11.4 billion in non-monetary capital, CFAF 4.3 billion in net monetary capital and CFAF 20 billion in miscellaneous financing of which CFAF 17.8 billion went into rescheduling the external debt.

VIII. MEDIUM-TERM PROSPECTS

414. Economic growth is expected to be maintained at the same level in 1986-1987 as in 1985-1986 with a real GDP growth rate of about 5.8 per cent. Foodstuffs production should remain at the same level while uranium sales should increase by about 5 per cent. Substantial capital movements are expected to bring down the overall balance-of-payments deficit to about CFAF 12 billion despite the deterioration in the trade balance deficit and in the current payments deficit. The main constraint will still be the servicing of the external debt which would require fresh rescheduling exercises.

415. These projected trends take into account the uncertainties of agricultural production as well as the slow down in the growth rate of the livestock sector as the livestock herds are built up again. They are also based on the best performances expected from the adjustment measures and the increase in the portion of investments in the directly productive sectors.

RWANDA

I. OVERALL GROWTH PERFORMANCE

416. The growth performance of the Rwandese economy during the period 1982-1984 have been less than satisfactory. GDP (at constant 1980 factor cost) grew by an average of 1% per annum during this period. However, the economy experienced a recovery in 1985 when GDP rose by 4.5% as against a steep decline of 3.6% in 1984. It is estimated that GDP increased by 4.6% in 1986 as a result of some big push coming from key sectors: agriculture with a growth rate of (6%), manufacturing (3.1%), construction (5.9%), commerce (3.6%) and services (3.4%).

II. MAJOR DEVELOPMENT PROBLEMS AND POLICIES

417. Rwanda's economic performance is dulled by two major constraints: its landlockedness which intensifies the country's vulnerability to transit neighbours and a high population growth. About 90% of the country's external trade are transitted through neighbouring countries: Uganda, Kenya, Burundi and Tanzania. As such any disruption on these routes (such as the civil strife in Uganda) can be detrimental to the smooth functioning of the economy. For instance, transport costs more than doubled between 1977 and 1980 which made imports very expensive and led to inflationary pressures notably sharp price increases of consumer goods.

418. On the other hand, a high population growth rate of 3.7% per annum puts an enormous pressure on the land. The agricultural sector occupies 95% of the population and average agricultural acreage under cultivation per family is about 1.03 ha. The soil is deteriorating rapidly through extensive exploitation and erosion. Agricultural production is also weakened by inadequate supply of inputs (notably improved seed varieties and fertilizers).

419. The government had announced that it will continue to strengthen the UMUGANDA schemes (the ad-hoc mobilization of the population for public works) throughout the country. Each citizen is expected to give one day a week to UMUGANDA. These schemes concentrate on the development of social services, such as: the building of schools, the extension of the water supply and the expansion of health centres. In 1984, UMUGANDA's contribution to GDP was estimated at $10 million and the schemes also contributed Rw fr 10 billion towards the Rw fr 125 billion 1982-1986 investment plan.

III. EXPENDITURE ON GDP

420. Total consumption which represented about 99% of GDP in 1985 grew by 3.3% in 1986 compared to growth rates of -1.9 and 3.9% in 1984 and 1985, respectively. Public consumption levelled-off at 16% of GDP over the same period as a result of government's stringent control of public expenditures. On the other hand, the share of private consumption in GDP increased from 79% in 1981 to 82% in 1985 but expected to decelerate to 80% in 1986. The overall average propensity to consume of 97% in 1986 leaves only 3% for domestic savings whereas the gross fixed investment/GDP ratio was about 19%.

IV. PUBLIC FINANCE

421. Since 1983, the government had been implementing an austerity programme with IMF's assistance. However, there had been noticeable pressure on the budget lately as evidenced in 1985 when recurrent expenditures increased by 7% over the 1984 actuals as well as a 15% increase in development expenditures: Rw fr 16.41 billion and Rw fr 2.86 billion, respectively. Total expenditures in 1986 is estimated at Rw fr 22.35 billion. The development budget has been set at Rw fr 3.6 billion, to be funded mainly by the sale of bonds and internal borrowing.

422. The total cost of the investment envisaged in the 1982-1986 development plan is estimated at Rw fr 125 billion, of which Rw fr 23 billion (or 18%) was to be provided by the government. However, given the trend in government outlays up to 1984, which amounted to an average of only Rw fr 7.4 billion, it seems unlikely that actual government contributions to the investment programme would have been realized by end-1986. This explains the country's increased recourse to foreign aid and soft loans to meet the overall targets of its development plan.

V. EXTERNAL TRADE, BALANCE OF PAYMENTS AND EXTERNAL DEBT

423. Rwanda's external trade balance has been consistently in deficit throughout the 1980-1984 period. The total value of exports was around Rw fr 14.5 billion in 1984 while imports were valued at Rw fr 27.9 billion. This yielded a trade deficit of Rw fr 13.4 billion in 1984. The balance on services has always recorded a structural deficit, mainly as a result of the land-lockedness of the country. The increasing high transport costs, which is also partly explained by the rise in domestic prices of petroleum products combined with the difficulties of transiting imports and exports through neighbouring countries, has contributed to the poor showing in the country's external trade.

424. The deterioration in the trade balance was somehow attenuated by official transfers as well as improvement on the capital acount with a high inflow of concessional loans. Net changes in foreign reserves reached $104 million in November 1985 compared to $111.96 million in November 1984.

425. External debt as at end-June, 1984, was Rw fr 23.6 billion, but debt service remains within manageable proportions at $12 million (7.5% of export earnings).

VI. SECTORAL PERFORMANCE

(a) Agriculture

426. Agriculture occupies 95% of the population, a share of 42% in GDP and accounts for 80% of the country's export earnings. Food crop production increased from 5.4 million tons in 1981 to 7.4 million tons in 1985. The main food crops are plantain, sorghum, maize, sweet potatoes, cassava and beans. However, the rapid population growth occasioned an excess demand over domestic food supply in 1985 which led the government to import well over 50 thousand tons of cereals.

127. The objectives of the Five Year-plan (1982-1986) was to achieve an overall average annual growth rate in food production of 3.5% based on an assumption of 2.6% population growth rate. But the population is growing at 3.7%, which was higher than the anticipated rate of increase in food production which implies that per capita food production deteriorated sharply.

128. As for cash crops, coffee production reached 32,400 tons in 1984 and 30,000 tons in 1985. Provisional figures for tea production are: 8,700 tons in 1984 and 9,400 tons in 1985. Production of other industrial crops: pyrethrum extract and quinquina bark-progressed very slowly during the 1984 and 1985 growing seasons. In 1983, the estimated animal population: 647,000 cattles, 139,000 pigs, 352,000 sheep and 1,016,000 goats.

129. Forestry is constituted of 13,000 ha. of natural forest, 80,000 ha. of artificial forest, and 7,000 ha. of planted savanna. This does not satisfy the needs of the population for fuel wood and other requirements and as such the government is encouraging the replanting of trees.

(b) Industry

130. The industrial sector in Rwanda is very small and produces mainly for local consumption. Some agricultural export commodities, notably coffe and tea, are semi-processed locally. A 1981 survey revealed that there are more than 100 manufacturing enterprises, some of which are foreign owned. Growth of the industrial sector is limited by the small domestic market; shortages of foriegn exchange for importing raw materials and irregular supply of electricity.

(c) Services

131. The services sector which includes international transport and communication, general domestic trade and tourism has performed quite well in 1985. The recovery in the tea and coffee exports increased transport activities towards the seaports. The government has been pushing the construction of a 120 km tarmac road between Kayonza (east Kigali) and Kakitumba (on the border with Uganda). But there are delays in the completion of the project caused by financial difficulties emanating from the reluctance of some donors to participate in the project. However, the sixth highway roject (1986-1988) has been granted additional finance from BADEA ($7.6 million), the World Bank ($11.0 million), UNDP ($1.0 million) and France ($400,000). The completion of this highway will improve freight movements via Uganda. Canada is donating an aircraft to Air Rwanda together with spare parts and training arrangements for Rwandan pilots and technicians at a cost of $4.41 million. The government is also considering the possibility of installing a $68 million television network.

VII. IMPLEMENTATION OF THE SUBSTANTIAL NEW PROGRAMME OF ACTION

132. UNDP assisted the government of Rwanda to organize a Roundtable Conference with donors in December 1982. The Government's submission consisted of succint analysis of the country' development strategies and policies backed by an investment programme costing Rw fr 237 billion. According to ECA's assessment of resource flows in the context of the SNPA, external assistance flows based on donor commitments at the Roundtable has not been commensurate with the funding requirment of the programme. In 1985 total cumulative flow of external aid on concession terms was only around $200 billion over a four year period.

VIII. MEDIUM-TERM PROSPECTS

433. The improvement in the security situation in southern Uganda ushered well for regular deliveries of coffee to the Port of Mombassa. The impact of the Brazilian drought on prices is now expected to endure until 1987. With an initial quota of 470,000 bags (of 60 kg) of coffee and accumulated stocks between 100,000 and 150,000 bags, Rwandan foreign currency earnings should rise significantly especially from arabica coffee exports. If such high export tonnage flows out in 1987, government revenues would increase substantially and there should be a significant improvement in the balance of payments position. According to ECA preliminary estimates, real GDP (constant 1980 factor cost) is expected to grow by 4.6% in 1986 provided the anticipated 6% growth in agriculture is realized.

SAO TOME AND PRINCIPE

I. OVERALL GROWTH PERFORMANCE

434. Except for 1982, the economy of Sao Tome and Principe has been declining since 1980. In 1985, GDP at constant factor cost declined by 4.4 per cent. This slow-down which continued in 1986 has been due mainly to the decline in production and prices of Cocoa, the main agricultural product, which account for 40 per cent of GDP. Per capita GDP fell drastically from $US 486 in 1980 to $US 328 in 1984.

II. MAJOR DEVELOPMENT PROBLEMS AND POLICIES

435. Sao Tome and Principe is one of Africa's smallest, poorest and most isolated island country in the Gult of Guinea. A major deterrent to the economic progress of the country is its mono-commodity dependence. With the mass departure of the Portuguese after independence, which bereft the country of skilled and managerial personnel, cocoa output, which,on average accounts for 90 per cent of export earnings, dropped from 11,586 tons in 1973 to 4,640 tons in 1976. Production was improved to 7,376 tons in 1979 but low world market prices for Cocoa since 1977/78 had resulted into a slump in export earnings. The country could not afford agricultural inputs such as fertilizers and other necessary equipment for the Cocoa Estates, hence production began to fall again. The situation was aggravated by the 1982-1983 drought and by 1984, Cocoa output was no more than 3,378 tons.

436. Two national development plans covering the periods 1982-1985 and 1986-1990 have been prepared and put into effect. The rehabilitation of the Cocoa Estates has attracted foreign private investments as well as capital flows from the IDA/IBRD, the French aid agency (CCCE) and the African Development Bank. This aid influx coupled with external assistance under the IMF supported recovery programme, are aimed at redressing the imbalances in the economy especially the restoration of agricultural production to pre-independence levels. In a policy statement issued by the Government in October, 1986, increased emphasis will be laid on private sector initiatives in commerical and industrial activities.

III. EXPENDITURE ON GDP

437. Owing to a sharp decline in private consumption (averaging -7.5 per cent per year) overall consumption, which in 1984-1985 accounted for 117 per cent of GDP, has fallen by an average annual rate of 4.3 per cent between 1980 and 1985 or a proportion of 110 per cent of GDP. At the same time, public consumption has risen steeply by 25 per cent. The results have been wide fluctuations in gross investment which declined by 45 per cent in 1985 as compared to 1980. And yet, not counting 1982-1984 when there was a major drought the trade deficit has been declining. In 1985 it was at 77 per cent of its 1980 level but accounted for 167 per cent of export earnings and 50.1per cent of GDP at constant factor cost. A persistent

rsource deficit which was then equivalent to 25 per cent of GDP is now no more than the equivalent of 14 per cent and yet the country's economic development still depends on foreign inputs.

IV. PUBLIC FINANCE

438. In 1984, the 50 per cent increase in expenditure alongside a 15 per cent decrease in revenue yielded a budget deficit equivalent to 71 per cent of GDP. Sixty-one per cent of this deficit was financed out of external borrowing. Since 1981, such deficits have made the Government to rely increasingly on extra-budgetary resources both from domestic and external sources. As a percentage of GDP, capital expenditure has been following a cyclical pattern (26.3 per cent in 1981, 57.3 per cent in 1982, 23 per cent in 1983 and 54 per cent in 1984).

V. EXTERNAL TRADE, BALANCE OF PAYMENTS AND EXTERNAL DEBT

439. In 1983, the drastic import reduction measures introduced significantly improved the trade balance which had been in deficit since 1981. Exports (F.O.B) declined between 1981-1983 at an average annual rate of 34.5 per cent. The decline has been due mainly to the fall in cocoa production caused by the drought, the aging of cocoa plantations and also by a drop in world market prices for Cocoa. In 1985, total exports amounted to, $US 7.1 million while the value of imports stood at $US 22 million implying a trade balance deficit of $US 14.9 million. Preliminary estimate for 1986 indicate that exports, and imports increased to $US 10 million and $US 26 million, respectively. The current account deficit widened from $US 8.3 million in 1985 to $US 11.6 million in 1986. In view of these trends, the overall balance of payment has remained in persistent deficit during the first half of the 1980s.

440. As at end-1985, the total disbursed Public External debt was estimated at $US 65.1 million. Of this amount, around 25 per cent consisted of commercial loans whose interest rates ranged from three to 8.3 per cent. The remaining debt was contracted on concessional terms with very favourable credit terms including interest rates of 1 to 4 per cent and grace periods of 8 to 13 years. Debt servicing accounts for around 30 per cent of export earnings.

VI. SECTORAL PERFORMANCE

A. Food and Agriculture

441. Being the country's main economic activity, agriculture offers good prospects for development because of the climate and the relatively fertile soil. Annually, it contributes more than 29 per cent of GDP but the sector is suffering from an acute shortage of manpower to manage the plantations and maintain the equipment.

442. Cocoa production showed a marked recovery in 1985 and 1986 with output of 3,500 tons and 4,000 tons respectively although these are below the production level of the pre-drought years. As mentioned earlier, the Government is undertaking a major rehabilitation and privatization of the Cocoa Estates, for which financing has already been mobilized.

B. Industry

443. The industrial sector is relatively undeveloped accounting for less than 10 per cent of GDP. Manufacturing activities are limited to the processing and manufacture of soap, soft drinks and beer. The Government is making modest efforts to promote the development of agro-industries. According to the current policy of the Government, strong emphasis are placed on the development of artisinal fisheries, consolidation of existing industries catering for the domestic market, and the encouragement of foreign private investment as spelt out in the investment intensive code of 1986.

VII. IMPLEMENTATION OF THE SUBSTANTIAL NEW PROGRAMME OF ACTION

444. With a view to mobilising more financial resources in order to pursue its development objectives, Sao Tome and Principe organized a roundtable with external aid agencies to finance the 1986-1990 five-year plan. The meeting was held at Sao Tome late in 1985 with the main objective of improving the tight external financing situation. From 17 to 22 May 1986, the Government organized a donors' meeting in Sao Tome with the assistance of UNDP. No information is yet available on aid flows emanating from the commitments made at these meetings.

VIII. MEDIUM-TERM PROSPECTS

445. Development prospects of the country are shaky due to the heavy reliance of the economy on a single commodity (Cocoa) whose production is vulnerable to erratic weather conditions and the price of which is determined on the world market. With the likelihood of better world prices in 1987 and with the agricultural rehabilitation efforts paying-off in terms of enhanced production, especially of Cocoa, the economy is expected to be somehow resilient in the years ahead. However, in view of lagged effects of policy measures, real GDP growth rate in 1987 is forecast to decline by 5.3 per cent.

I. OVERALL GROWTH PERFORMANCE

446. The Sierra Leone economy remained severely depressed in 1985/86 following years of stagnant output and declining productivity in almost all sectors, combined with weak prices for the country's exports and declining terms of trade. In absolute terms, GDP (at current market prices) is estimated to have increased by 35 per cent from Le 2,582.2 million in 1984/85 to Le 3,486.0 million in 1985/86. However, real GDP declined by 15 per cent in 1985 compared to the previous year.

447. As a result of a huge increase of an estimated 71 per cent in the money supply in FY 85/86, coupled with declining output and a sharp fall in imports due to foreign exchange shortages, the rate of inflation, as reflected by the Freetown Consumer Price Index, rose from 56.4 per cent in 1984 to 76.6 per cent in 1985 and is estimated to have increased further to 80 per cent in 1986. With salaries remaining essentially fixed, except for the bonus granted to workers during fiscal year 1984/85, real income declined markedly.

II. MAJOR DEVELOPMENT PROBLEMS AND POLICIES

448. The stagnation of the economy occasioned by the drastic fall in output in all sectors, notably agriculture and mining, and the rapid decline in per capita income due to a high annual population growth rate of 2.6 per cent, have been the major macro-economic problems facing the country. With the severe shortage of foreign exchange, the incentive to conduct commercial transactions outside official trade and exchange system had persisted. In fact, the financing of the foreign component of development programmes had suffered due to the suspension of disbursements arising from failure to meet overdue debt service payments. Gross imbalances had also occurred in fiscal accounts which, together with expansionary monetary policies, had accelerated the rate of inflation.

449. It was against this background that the government concluded a stabilization programme with the IMF aimed at arresting the deteriorating trends in the economy. The IMF had approved the use of Fund Resources totaling the equivalent of SDR 50.36 million of which SDR 23.16 million will be drawn in 1987 under a standby arrangement in support of the Government's Economic Recovery Programme for 1986/87. An additional SDR 27.2 million will be provided over a three year period under a structural adjustment facility.

450. As part of the policy package, the government introduced a flexible market determined foreign exchange system by mid-1986, and eliminated subsidies on petroleum products and rice. The import licensing regime was liberalized, and retention facilities for foreign exchange previously accorded various exporters were abolished and full surrender obligations put in force. A Government Gold and Diamond Office (GGDO) was set up to export gold and diamonds so as to improve the flow of foreign exchange through official banking channels.

451. To accelerate food self-sufficiency, the government had embarked upon a Green Revolution Programme which envisages a gross investment of US$112 million. It is expected to increase rice production up to local market demands and cut off rice importation. Production of other food crops is also expected to increase substantially. Producer prices of major agricultural commodities, including rice, have been increased substantially, as an incentive to stimulate production. In an attempt to mobilize savings for use in the agriculture sector, the government is to establish two new rural banks whose two-prong objectives would be to encourage rural dwellers to save and to provide quick-disbursing credit facilities for farmers.

452. To diversify the economy and reduce dependence on agriculture and mining, the government is embarking on actions aimed at improving the performance of the manufacturing sector. The Industrial Development Act is to be reviewed in order to lessen the extent of administrative intervention; provide a stable and neutral policy environment and increase support to small-scale industries.

III. EXPENDITURE ON GDP

453. According to ECA Preliminary Estimates, final consumption expenditure was 105 per cent of GDP in 1986 up from 99 per cent in 1985. This is a reflection not of quantitative expansion but of the impact of the high rate of inflation. The share of private consumption in GDP increased from 88 per cent in 1985 to 95 per cent in 1986 while that of public consumption declined moderately from 11 to 10 per cent.

454. The low level of public investment is evident by the decline in gross fixed capital formation from 12 per cent of GDP in 1985 to 8.7 per cent in 1986. The decline in investment is explained by the slump in private sector economic activity, diversion of development expenditures to recurrent account and the accumulation of domestic and external arrears which eroded the government's capability to borrow from capital markets.

IV. PUBLIC FINANCE

455. The 1985/86 budget out-turn indicate a considerable drop of 14 per cent in recurrent revenue from a budget estimate of Le 426.7 million to Le 368 million. However, grants and development receipts increased by Le 6.3 million to Le 104.3 million as against the budget estimate of Le 98 million. Actual total government revenue is estimated at Le 472.3 million, a 10 per cent drop compared to the budget figure of Le 524.7. On the other hand, total expenditure increased markedly due to unbudgetted expenditures for rice and oil subsidies which claimed about 43 per cent of recurrent expenditure. Hence, instead of a budget estimate of Le 771.1 million, actual expenditures reached Le 1,305.6 million resulting into a budget deficit of Le 833 million as against the estimate of Le 190 million. About 87 per cent of the deficit was financed from the domestic banking system leaving the balance to be funded from non-bank sources.

456. In the 1986/87 budget, total revenue including grants and development receipts is projected at Le 1,451.7 million while total expenditures will amount to Le 1,622.5 million, giving an estimated overall budget deficit of Le 170.8 million. Subsidies on rice and oil have been abolished and the government intends to minimize its recourse to domestic banking credit to finance the budget deficits. As such, the 1986/87 deficit will be financed largely by non-bank sources.

V. EXTERNAL TRADE, BALANCE OF PAYMENTS AND EXTERNAL DEBT

457. Preliminary estimates by ECA indicate that the value of total exports in dollar terms increased from US$155 million in 1984 to US$206 million in 1985 against a backdrop of intense across-the-border smuggling activities of important tradable commodities which reduced the quantum of exports through official channels. Imports declined considerably from an estimated US$377 million in 1984 to US$297 million during the same period on account of inadequate foreign exchange availability for external transactions.

458. The trade deficit of US$91 million in 1985 is projected to increase slightly to US$96 million in 1986 despite anticipated reductions in both imports and exports. These negative movements in both the current and capital accounts led to a substantial increase in the overall balance of payment deficits in 1985.

459. Total external long-term public debt outstanding at end-1984 is estimated at US$341.6 million with an annual average public debt service due between 1985-1987 estimated to be around US$34.1 million. Since 1975, Sierra Leone had had four multilateral rescheduling of its external debt obligations and negotiation in 1984 with the Paris Club Creditor nations resulted into a rescheduling of about US$50 million of the country's debt.

VI. SECTORAL PERFORMANCE

A. Food and Agriculture

460. Developments in the agricultural sector in 1985 were mixed. Increases in production were recorded for rice and coffee - whereas the output of cocoa and ginger fell. Milled rice output increased from 363,000 tons in 1984 to 405,000 tons in 1985 and coffee from 2,006 tons to 10,127 tons during the same period. Cocoa output dropped from 11,230 tons in 1984 to 9,614 tons in 1985 and ginger from 60 to 42 tons.

461. As part of the government's structural adjustment programme, appropriate incentives will be provided to smallholder farmers to increase production. A system of guaranteed prices commensurate to world prices for export commodities, will be introduced as a back-up incentive to the annual increases in producer prices. The Government's Green Revolution Programme will cost about Le 220.5 million in 1987 and Le 166.3 million in 1988 of which the external assistance component is 93.2 per cent and 89.1 per cent respectively.

B. Manufacturing

462. The contribution of manufacturing to GDP is still very low, estimated at around 5 per cent. In 1985, there was a considerable decline in output of most manufactured products. The major reason for the low capacity utilization in most industries is the acute shortage of foreign exchange needed to import raw materials and spare parts. With the floating of the Leone, the government envisages that a market-determined exchange rate will encourage efficient industrial growth. The government had embarked on phasing out price control on locally produced industrial products. The Industrial Development Act will be reviewed so as to reduce the extent of administrative intervention in the industrial sector and to promote a favourable investment climate.

C. Mining

463. The mining sector experienced considerable difficulties in 1985. The output of bauxite rose from 1.04 million metric tons in 1984 to around 1.34 million tons in 1985, an increase of 27.9 per cent. Rutile production also increased by 19.4 per cent from 82,428 metric tons in 1984 to 98,400 metric tons in 1985. Production of iron ore was halted in March 1985 following withdrawal of the expatriate management of the Marampa Iron Ore Mine. Financing is been sought while management contracts are in the making for the reopening of the Mine. Diamond output was down in 1985 to 66,000 carats from 95,000 carats in 1984. Mining costs continued to rise, while shortages of fuel and mining equipment have stifled the industry. The government intends to start the Kimberlite diamond mines project at a cost of between US$90-US$140 million with a projected yield over the life span of the project of about 8 million carats of diamond.

VII. IMPLEMENTATION OF THE SUBSTANTIAL NEW PROGRAMME OF ACTION

464. The government is to organize a donors' meeting in 1987 to seek external assistance for its public investment programme (1985/86-1987/88) which was costed at Le 703 million in 1985. With the floating of the Leone, the total programme cost, in local currency terms, now stands at over Le 3,500 million. According to official sources, UNDP and the World Bank are assisting the government to organize the donors conference.

VIII. MEDIUM-TERM PROSPECTS

465. The most pressing problems facing the Sierra Leone economy remain those of an escalation in the general price level, inelastic public revenue, acute shortage of foreign exchange, rising recurrent expenditure and mounting external debt obligations. The various measures and policies pursued by the government in 1984/85 were of mixed results.

466. Price controls were ineffective in the face of economic forces while the Government Gold and Diamond Office (GGDO) had failed in its efforts to improve the banking system's supply of foreign exchange or to reduce the incentive to the smuggling of precious minerals. The anti-smuggling effort paid off some dividends but it is doubtful if the returns are worth the efforts, particularly as the economic incentives to smuggle remain as attractive as ever.

467. In broad macro-economic terms, the government's structural adjustment programme aims at reducing the current account deficit in the balance of payments from 3 per cent of GDP in 1985/86 to 2 per cent of GDP in 1986/87. The overall fiscal deficit is projected to decline from 14.5 per cent of GDP in 1985/86 to 7.4 per cent in 1986/87. However, according to ECA preliminary estimates, real GDP is expected to decline by as much as 10 per cent in 1986 although a slight recovery is eminent in 1987 and 1988.

SOMALIA

I. OVERALL GROWTH PERFORMANCE

468. The Somali economy recovered slightly in 1985 with a 2.9 per cent increase in GDP after two consequetive years of general economic slow-down. From a pre-drought growth of 11 per cent in 1982, Real GDP slipped to a negative 3.7 per cent in 1984 due largely to low agricultural output and, most importantly, the closure of the traditional export outlet for Somali cattle which usually net the government about 80 per cent of foreign exchange earnings. Livestock number had recovered from the 1983 drought but the lagged effects of better climatic conditions depressed the agricultural sector growth to a mere 4.1 per cent in real terms in 1985 and consequently led to a drop in per capita GDP by 0.1 per cent.

469. Adverse developments in the external sector still persist which implies a continued worsening of the balance of payment position, chronic fiscal difficulties and an increasing debt burden. The inflation rate at 94 per cent in 1984 decelerated to 30 per cent in 1985 as the government adopted tough fiscal and monetary policy measures to redress the imbalances in the economy.

II. MAJOR DEVELOPMENT PROBLEMS AND POLICIES

470. Somalia continues to face acute economic and financial difficulties despite the series of adjustment and stabilization programmes adopted during 1984-1986. The scarcity of raw materials and other essential inputs had constrained production in key sectors, especially agriculture. Banana production (second largest export earner) declined to its lowest level in 1985. Export of livestock to such traditional market as Saudi Arabia is still facing resistance due to the rinderpest scare although the government had mounted an expensive campaign to eradicate the disease.

471. To redress these problems, a number of policy measures were ennunciated to increase the efficiency of the production sectors. Improved farming methods including the expansion of area under cultivation for staple and cash crops, are expected to enhance agricultural production.

472. The Somali shilling was depreciated by 32 per cent in September 1984, followed by a further devaluation of 29 per cent in January 1985 (with a two-tier exchange rate) in an effort to correct the imbalances in the country's exchange regime and to promote exports. These gradual devaluations were insufficient to redress the external imbalance and hence the government opted for a foreign exchange auction system in September, 1986 at which the exchange rate is set by market conditions.

473. The growing debt repayment obligation had also contributed to the financial problems facing the country. The debt-service payments at end-1984, including arrears, reached $225 million. In the face of slackening export demand, and adverse developments in international financial markets, the situation became more precarious in 1986. As such, the government is seeking external resources amounting to $636.3 million to finance its national recovery programme (1986-1990).

474. The government had acquired an IBRD backed agricultural sector adjustment credit of SDR 55.1 million ($64.3 million) with its associated conditions of phasing out subisides on diesel and petrol, removal of controls on veterinary drugs; improving interest rates for agricultural savings, liberalization of grain marketing and introduction of floor prices for purchases and auctions of agricultural produce. Other major reforms include the promotion of private sector and foreign investment; improving the performance of public enterprises; and greater mobilization of domestic resources.

III. EXPENDITURE ON GDP

475. According to ECA Preliminary estimates, total consumption in absolute terms amounted to 4 per cent above GDP (at constant 1980 prices) in 1985 because of the inflationary impact on private consumption which alone accounted for 79 per cent of GDP. The share of public consumption in GDP was somehow stable at 25 per cent in 1984-1985. Estimates for both private and public consumption expenditures shares in GDP show some moderation in 1986 and 1987 at 74 per cent and 24 per cent, respectively.

476. Gross fixed capital formation is estimated to have increased by 44 per cent in 1985 over the 1984 level mainly as a result of substantial injection of public sector investment in rehabilitating the agriculture sector. Further increases are expected in 1986 and 1987, though at comparatively lower rates of 6 and 18 per cent, respectively;

IV. PUBLIC FINANCE

477. The main features of Somalia's fiscal situation is the persistent budgetary deficits and the increased recourse of the government to the domestic banking system to finance these deficits despite restraints and controls on public expenditure under the stabilization programme. The country also relies heavily on external sources to bridge the budget gap. The overall deficit as a proportion of GDP increased substantially in FY84/85 to 23 per cent as compared to about 10 per cent in FY83/84. Most of the increases in the deficit were largely due to a simultaneous drop in revenue and an unprecedented increase in total expenditures.

V. EXTERNAL TRADE, BALANCE OF PAYMENT AND EXTERNAL DEBT

478. The performance of the external sector was erratic, mainly because of poor climatic conditions and policy changes in traditional export markets for Somalia's main export commodities. The low level of agricultural output was reflected in a substantial fall in banana exports, the main stay of the economy. Since 1983, cattle exports to Saudi Arabia had remained blocked due to health reasons (rinderpest). While gains from exports of incense, (Somalia is the largest world producer) to the Golf area were considerable and in spite of the recent measures introduced to rationalize imports, notably regulations to prohibit imports of luxury goods and incentive to boost exports, the balance of payment position is still precarious.

479. External payment arrears reached an unprecedented level in 1986 and was worsened by the insistence of several bilateral Arab funds on prompt repayments and refusal to negotiate debt rescheduling. The IMF had provided $20.5 million for balance of payment support in 1986 of which $10.5 million was to be used for the foreign exchange auction system and $10 million for other foreign exchange needs of the government.

480. Somalia's external indebtedness had increased substantially in recent years. As a percentage of GDP, it rose from 49.8 per cent in 1981 to 69.6 per cent in 1984. Consequently, the debt-service/GDP ratio jumped from 2.1 per cent in 1981 to 6.6% in 1985 or an equivalent of 55% of total exports of goods and services. In Absolute terms, long-term Public debt outstanding at End-1984 is estimated at $1,233 million. The average annual debt service payments due during 1985-1987 is $132 million.

VI. SECTORAL PERFORMANCE

A. Food and agriculture

481. About 35% of GDP was generated from the livestock sector while the share of crop cultivation was around 10-11% in 1985. Notwithstanding, cereal production improved considerably from 302 thousand tons in 1981 to around 454 thousand tons in 1985 due to the return of substantial rainfalls. Due to diseases and adverse weather conditions, livestock production decreased tremendously: Cattle from 3.95 million heads in 1981 to 3.6 million in 1985; sheep from 10.2 million heads in 1981 to 9.7 million in 1985; and goats from 16.5 million heads in 1981 to 15.7 million in 1985. Despite the Government's effort in establishing new quarantine facilities with US assistance at Kismayu, Badhera and Mogadishu, the exports of livestock did not recover sufficiently to its previous levels. A large scale project in aid of livestock activities and testse fly eradication is expected to start in 1987 with financial backing of U.K. and Italy.

B. Manufacturing

482. The manufacturing sector still remains small and undeveloped contributing below 10% of GDP. The public sector dominates industrial activity accounting for over 80% of industrial output and about 95 per cent of the gross domestic investment. Excess capacities are evident in most of the industries and actual capacity utilization is estimated at under 33 per cent on the average. In addition to the scarcity of raw materials, the manufacturing sector is faced with production and management problems and an inflexible price structure.

VII. IMPLEMENTATION OF THE SUBSTANTIAL NEW PROGRAMME OF ACTION

483. With the assistance of the World Bank, the Somali Government organized its first consultative Group (CG) meeting in October, 1983 at which it presented a public investment programme PIP) within a Policy Framework aimed at stabilizing the economy, restoring productive capacity and building a base for self-sustained growth. The estimated funding requirements for the PIP, (as adjusted in 1985) was $304 million in 1984 and $278 million in 1985. Another CG meeting was convened in January, 1985 to specifically reorient project aid pledged at the 1983 meeting to balance of payment support because of the country's low level of foreign exchange reserves at the time and difficulties in rescheduling its debt.

484. The estimated actual flow of external financial and material assistance for the PIP as a whole was 46 per cent and 54 per cent of expected flows in 1984 and 1985 respectively, which is a respectable performance relative to the drastic decline in resource flows to LDCs in general. However there was considerable slippage in programme implementation due to Somalia's low absorptive capacity and the complex disbursement procedures of donors. The Government's projection of resource requirements to finance its public investment programme during 1986-1988 is $1,030 million (i.e. $340 million in 1986, $329 million in 1987 and $361 million in 1988). The total estimated cost of Somalia's national recovery programme under the 1986-1990 African Priority Programme for Economic Recovery (APPER) is $1,458.6 million, of which $822.3 million is the estimation of likely available resources (Domestic: $147 million and External: $675.3 million)

VIII. MEDIUM-TERM PROSPECTS

485. The Government plans to keep the inflation rate down to 20 per cent in 1986 through the Adoption of austerity measures prescribed in the 1986 Budget. Agricultural production may improve slightly but food aid would be required at even higher levels. The debt burden is expected to intensify with an estimated debt-service ratio of over 120 per cent which implies a substantial diversion of the already very meagre foreign exchange earnings to debt service payments. According to the Government's revised national accounts figures, GDP (at 1977 factor cost) is expected to grow at an average annual rate of 4.6 per cent during 1986-1989 which is well below the SNPA growth target of 7.2 per cent projected for the LDCs during the same period.

SUDAN

I. OVERALL GROWTH PERFORMANCE

486. In recent years, the Sudanese economy has witnessed severe economic and financial difficulties occasioned by a combination of factors, principally, the huge external debt and related heavy debt service obligations, significant drop in agricultural production and poor showing of other export-oriented sectors which had led to a contraction in foreign exchange earnings, a sharp deterioration in the balance of payments and the chronic budget deficits.

487. After three consecutive years of GDP slippage, a recovery was signalled in 1985/86 when a growth rate of 4.2 per cent was registered triggered largely by an exceptional growth of 29.7 per cent in agriculture value added. Nonetheless, given the inherent acute shortages, especially those associated with the lack of foreign exchange to finance imports, the inflation rate galloped by a further 35 per cent in 1985/86.

II. MAJOR DEVELOPMENT PROBLEMS AND POLICIES

488. As alluded to earlier, a major developmental problem facing Sudan is the country's mounting debt burden and the growth in arrears. Total external debt has been estimated at some $10.7 billion at end-1986 while arrears exceeded export earnings several-fold. Arrears to the IMF alone now stand at roughly $300 million and agreement on the payments is yet to be reached so as to allow the country to use Fund resources which was suspended in February 1985 including a $900 million loan for balance of payment support. The IMF decision also disrupted development programmes and projects which were expected to have received $500 million in external aid from other donors.

489. The poor export performance at a time of considerable slow down in external resource flows puts further strain on the economy. Consequently, new investment has been affected and many of the existing plants were either operated at low capacities or ceased production altogether for lack of essential imported inputs. The budgetary situation also remains tight although the deficit in 1986/87 is 21 per cent lower than the actual deficit of LS3632.5 million in 1985/86. This fiscal position has been aggravated by the poor performance of public sector corporations, who, in spite of the considerable rehabilitation efforts, have increased their liability with the central bank from LS563.3 million in 1984 to LS1207.9 million by June 1986 excluding commitments to the central Government such as interest on capital, water and land charges and cost of local component of imports. The economy continues to suffer from excess liquidity as the money supply increased by about 21 per cent during 1986. This together with shortages - particularly foreign exchange related shortages - had further aggravated the already acute inflationary pressures.

490. In an attempt to sustain the economic recovery, the government is intensifying its efforts to rehabilitate the key commodity-producing sectors of the economy. Highest priority has been given to boosting agricultural and industrial production as evidenced by increased budgetary allocations. A short-term plan is under preparation whose main objective is to remove the structural imbalances in the economy.

491. Regarding the fiscal position, measures were taken to improve tax collection and enhance the efficiency of parastatal corporations; reduce unnecessary public expenditure including the streamlining of the civil service structure as well as curtail the reliance of regional governments on extra-budgetary financing. Financial controls will also be administered more rigiorously and a limit on Government borrowing from the banking system will be maintained at a maximum of 10 per cent of public expenditure. The government is also taking measures to agree with its major donors on the management of its outstanding debt while emphasising the efficient utilization of new lines of credit to support the recovery programme. A new credit policy has also been instituted by which special preference is been given to production activities.

III. EXPENDITURE ON GDP

492. Both private and public consumption expenditure have been increasing over the past few years. Public expenditure continued to escalate in response to increased costs of government services as well as the high costs associated with support for drought-affected citizens and an increased inflow of refugees from neighbouring countries. Private consumption, on the other hand, failed to respond to the decline in real incomes and continued to rise through liquidation of private assets. As a result, domestic savings continued to fall at a pace of 1.2 per cent annually during 1981/82 - 1985/86.

IV. PUBLIC FINANCE

493. The 1986/87 budget estimates total domestic revenue at LS2683 million compared with LS1997 million realized in 1985/86. This upsurge is based on anticipated increase in revenue mainly from non-tax sources as tax revenue is expected to rise only marginally from LS1656 million in 1985/86 to LS1670 million in 1986/87. Total expenditure is estimated at LS5542.0 million of which LS3616 million is earmarked for recurrent expenditure and the remainder for development budget outlays.

494. The 1986/87 recurrent budget exceeds that of 1985/86 by about 41 per cent which is explained by the application of the new wage and salary structure for government employees, and the increased allocation of operating funds to government units to enable them improve their efficiency. The rise in development allocations from LS628 million in 1985/86 to LS1380.8 million in 1986/87 reflects

increased allocations for all sectors: agriculture rising by 51.2 per cent, energy and mining by 213.7 per cent and transport and communications by 205.2 per cent. On the whole, the gross deficit is estimated at LS2859.2 million in 1986/87, about 68 per cent of which will be met from commodity aid and grants, another 24 per cent from loans and the balance from local sources.

V. EXTERNAL TRADE, BALANCE OF PAYMENTS AND EXTERNAL DEBT

495. The external payments position remains the weakest aspect of the economy. The deficit on the current account is expected to rise from LS81 million in 1985/86 to LS257 million in 1986/87. This sharp deterioration arises from the quadrupling of the trade deficit to LS944 million which is closely linked to a substantial rise in imports, particularly government imports. The invisible account is expected to show a surplus of LS687 million in 1986/87 mainly as a result of an anticipated rise in Sudanese migrant remittances.

496. The net out-turn on the capital account is expected to result in a surplus of LS245 million, thereby reducing the overall deficit in the balance of payments to LS3 million in 1986/87. It is to be noted however that these estimates do not fully take into account the repayment of substantial outstanding commitments and arrears.

497. Sudan's external debt is estimated at about $10.7 billion at end-1986. Intensified efforts are being made by the government to seek agreements with major creditors on the modalities of managing this debt.

VI. SECTORAL PERFORMANCE

A. Food and Agriculture

498. Adequate rains in the 1985/86 and 1986/87 seasons have greatly enhanced rain-fed agricultural production. After the disastrous drought years of 1982/83 - 1984/85, food production picked up markedly in 1985/86. Production of dura and dukhn the major staples, increased by 227.7 per cent and 170.0 per cent respectively, in 1985/86 and wheat by 151.9 per cent. Hence, the country was able to redress shortages in food deficit districts and build up stocks. This, coupled with international relief efforts, was instrumental in reducing the number of drought-affected people from about 8 to 4 million by the end of 1985/86. Preliminary estimates for 1986/87 put dura production at between 5000-6000 tons which amounts to an increase of between 40 to 65 per cent compared to the previous season. Also, millet production is expected to more than double to 15000 tons.

499. As for cash crops, cotton production is still affected by poor international demand and decline in prices, an accumulation of unsold stocks and the emphasis placed on food crops based on the experience of the severe drought conditions between 1982/83 - 1984/85. Value added in the irrigated subsector, where the major cash crops are produced, declined by 4.5 per cent in 1985/86. Hence, to boost production and allow further expansion in the irrigated area, the Roseires dam will be raised by an additional 10 metres to a height of 490 metres implying an increase in the dam's current maximum-storage capacity from 3 million cubic metres to 6.6 million cubic metres of water.

500. The government is pursuing a vigorous sales policy to clear accumulated stocks through a variety of arrangements which in turn allows it to redress the prevailing acute foreign exchange situation. New hopes are pinned on a new medium-long staple variety which has been tested successfully. Once production begins, the country is expected to be a major world supplier of medium-long staples as well as the existing extra-long staples.

B. Manufacturing

501. Manufacturing contributes some 9 per cent of GDP. Structurally, it is narrow-based with food and textile industries constituting over two-thirds of output. The growth of the sector has been seriously hampered by lack of essential inputs, spare parts, finance and shortages in power supply. Production of textiles, for instance, dropped by 25 per cent in 1985/86 owing partly to severe competition from imports. Likewise, cement production fell by 14 per cent in 1985/86.

502. The government is currently reviewing the entire functioning and institutional setting of the sector. The changing of publicly owned factories into joint ventures is likely to continue as well as rehabilitation and modernization. In this regard, the four publicly-owned sugar factories are being rehabilitated to restore full capacity operation from the current level of around 70 per cent.

VII. IMPLEMENTATION OF THE SUBSTANTIAL NEW PROGRAMME OF ACTION

503. The Sudanese Government organized a World Bank consultative meeting in Paris in January 1983 at which a public investment programme (PIP) was presented to donors along with the policy framework for its implementation. The latest country submission on financing requirements for Sudan's national economic recovery package under the UNPAAERD (1986-1990) is slated at US$2913 million of

which, indications are that US$2163 million may be available (domestic sources: US$1252 million and external: US$911 million). This leaves a funding gap of about US$750 million.

VIII. MEDIUM-TERM PROSPECTS

504. Sudan's economic prospects is heavily dependent on the performance of the agriculture sector. The return of the rains in 1985 had boosted rain-fed agriculture in 1985/86 and measures to expand irrigation activities which involves the major cash crops will boost overall agricultural production estimated to increase by 11 per cent in 1986/87. However, low world demand for and price of cotton will hamper Sudan's export performance and hence its foreign exchange earning capacity which would lead to an erosion of the country's ability to meet its external payment obligations. In the midst of these counteracting forces, ECA estimates indicate a real GDP growth of 3.7 per cent in 1986 and projected to increase by 5 per cent in 1986, both rates lower than the 6 per cent average annual growth envisaged by the national economic recovery programme.

TOGO

I. OVERALL GROWTH PERFORMANCE

505. During the period 1980-1983, the Togolese economy went through a deep recession and real GDP showed an annual average growth rate of about -4.1 per cent per year. The factors most responsible for the deterioration of the economic situation during this period were: the steep decline in the price of phosphates, a long spell of drought and a considerably higher external debt.

506. The economic and financial recovery efforts initiated in 1984 with a real GDP growth rate of 1.4 per cent were carried further in 1985 and 1986, when GDP grew by 3.3 and 2.9 per cent respectively. This upturn was the fruit of (a) sustained action to improve the situation of public finances; (b) substantial inflows of concessional aid; (c) the cancellation of nearly a sixth of the foreign debt; and (d) better management of the debt.

II. MAJOR DEVELOPMENT PROBLEMS AND POLICIES

507. In 1985-1986, most productive sector of the economy performed well, with the exception of the mining sector. Obstacles to Togo's development were mostly of a financial nature. As a result of the fourfold increase in the price of phosphates and the subsequent doubling of budget revenue in 1975, the Government launched an ambitious public investment programme characterized by a highly expansionary fiscal and monetary policy. Substantial investments were thus made in the industrial and tourist sectors at the expense of the rural sector, at the same time the State increased subsidies to public enterprises, hiring more civil servants and increased actual real wages. This trend persisted until 1983 despite the fall in phosphate prices which could not be made good by the favourable prices of coffee, cocoa and cotton. The Government was compelled to borrow extensively mostly at the market rate in order to meet near irreducible recurrent expenditure, maintain an annual investment rate equivalent to about 25.4 per cent of GDP while at the same time servicing its external debt with about 20 per cent of its export earnings. These problems were compounded by (a) the disruption of trade with Nigeria and the external payments problems faced by land-locked countries in the subregion which reduced the transit role of the port of Lome which had had to be renovated at considerable cost; (b) the weakness of the French franc to which Togo's currency is pegged; (c) the narrowness of the income base which reduced any prospects of broadening the tax base and (d) the weak linkage effect of investments made in specific areas on the rest of the economy.

508. In its search to find solutions to the above-mentioned problems, the Government launched stabilization and structural adjustment programmes with the assistance of the International Monetary Fund (IMF) and the World Bank. These mapped out the priority economic and financial policy measures pursued since 1980. From 1979 to 1985 the IMF concluded in support of these programmes four stand-by agreements in the amount of $US111.4 million out of which $US60 million were actually used. The World Bank provided two structural adjustment loans. With

regard to the directly productive sectors of the economy, the objective is to achieve a high level of activity in three key sectors: agriculture, to achieve food self-sufficiency; mining and manufacturing industries. Action in this area covered (a) expansion: the phosphoric acid project with the objective being to increase its output to 24 per cent of all exports by 1990 and there should be more trade with ECOWAS member countries; (b) research: oil prospection over more than half of the country and agricultural research; (c) the liberalization of distribution channels for agricultural products in particular and (d) tax and credit incentives for private nationals working in the industrial sector (tax harmonization and exemption, effective coverage and financing of project preparation).

509. The main thrust of the adjustment and stabilization effort is to reduce the budget deficit and the imbalance in current payments. Thus, along with an increase in revenue, expenditure was reduced through selective recruitment, a freeze in salaries and promotions, a 20.7 per cent reduction of the investment budget as compared to its 1980 level, the levying of a national solidarity tax of 5 per cent on salaries in the public and private sectors.

510. With regard to institutional reform, the State withdrew from unprofitable public enterprises and instituted strict investment management which led to production stoppages at the Société des ciments de l'Afrique de l'Ouest (CIMAO) which alone contributes about 7.3 per cent to the repayment of the principal on official external debt in 1985. The success of these austerity measures, combined with several reschedulings of the foreign debt and a substantial inflow of foreign capital enabled Togo to meet its commitments and to reverse the growth trend which had been declining until 1984.

III. EXPENDITURE ON GDP

511. The above-mentioned austerity measures which were designed to strictly manage demand had a stabilizing effect more on private consumption than on public consumption. After a decline of 20.4 per cent in 1984, public consumption grew by 26.6 in 1985 and 10.6 per cent in 1986 while private consumption grew by 6.5, 4.5 and 18.7 per cent, respectively, during the same period.

512. Gross domestic savings grew to CFAF 46.2 billion in 1984 and to CFAF 50.8 billion in 1985 but fell to CFAF 31.5 billion in 1986. During the same period, the investment rate was maintained at around 22 per cent of GDP per year. On average 48.4 per cent of net domestic savings was used to finance gross capital formation. The domestic deficit in goods and services increased steadily from CFAF 28.7 billion in 1985 to CFAF 48.5 billion in 1986, as compared to CFAF 15 billion in 1984.

IV. PUBLIC FINANCE

513. On the basis of estimated disbursements, the budget deficit (excluding grants) grew from CFAF 23.9 billion in 1985 to CFAF 27 billion in 1986, including CFAF 3.6 and 2.5 billion respectively in outstanding payments. On average, 66.9 per cent of these deficits were financed through grants and loans including 19.8 per cent from domestic sources and 13.3 per cent from external resources.

514. Recurrent expenditure which declined in favour of capital expenditure grew apace with total earnings at the rate of 6.6 per cent per year. Public and publicly guaranteed debt absorbed about 28.3 per cent in spite of rescheduling while operating expenses amounted to approximately 51.2 per cent of the total.

V. EXTERNAL TRADE, BALANCE OF PAYMENTS AND EXTERNAL DEBT

515. In 1985, Togo's exports which consisted mainly of phosphates, coffee, cocoa and cotton amounted to CFAF 108.9 billion, an increase of 2.5 per cent over 1984, while imports increased by 15.2 per cent to CFAF 117.6 billion francs. This poor export performance was due to a 67.5 per cent decline in income from cocoa while income from phosphates grew by only 4.9 per cent. This resulted in a trade deficit of approximately CFAF 8.7 billion in 1985, compared to CFAF 7.6 billion in 1984. The situation was probably much worse in 1986 when the deficit rose to CFAF 23.5 billion as a result of a 9.5 per cent decline in export earnings following the worsening of the crisis in the mining and cocoa industries and a 3.8 per cent increase in imports designed to support the revival in investments and the policy to boost consumption. The rate of coverage of imports by exports remained high at around 86.7 per cent.

516. The overall balance of payments went through fairly erratic fluctuations during the period under review. After a deficit of CFAF 6 billion in 1984, it showed a surplus of CFAF 12.6 billion francs in 1985 before registering another deficit of CFAF 7.3 billion in 1986. These trends reflected a rise in net capital inflows of 75.6 per cent in 1985 and a decline of 32.3 per cent in 1986; at the same time, services remained stagnant around CFAF 41 billion following an increase of 9 per cent in 1985. The current account deficit averaged 8.6 per cent of GDP.

517. Togo's official debt which, on 31 December 1985 amounted to approximately CFAF 293.7 billion or 93.1 per cent of GDP, was 8.4 per cent lower than in 1984. It declined further by 7.1 per cent in 1986. The Paris club accepted a rescheduling of the debt on five occasions in 1979, 1981, 1983, 1984 and 1985, which brought the debt service ratio down from 31.2 per cent of exports to 15 per cent in 1985 and 1986. Under **its** 1983-1985 financial programme, Togo's total external debt owed to private sources were also rescheduled as at 31 December 1983. Togo is not expected to request any further rescheduling of its debts in 1986 since financing should be provided under the United Nations Trust Fund, African Development Bank, by **the** «Caisse centrale de coopération économique», and the European Economic Community (EEC) under STABEX.

VI. SECTORAL PERFORMANCE

A. Food and agriculture

518. About 80 per cent of the active population earns its livelihood from the agriculture sector which, during the period under review contributed 31.3 per cent of GDP with a nominal annual growth rate of 8 per cent or 1 per cent in real terms. The performances of the farming seasons varied according to the crops. During the 1985-1986 season, there was an increase in the production of the following crops: yam (6 per cent), rice (16.7 per cent), cotton fibres (27.9 per cent). Cocoa and coffee production declined by 8.2 and 6.9 per cent respectively. The former group of crops enjoyed good rainfall and a substantial increase in producer prices which, with the exception of rice, made the country relatively self-reliant; the interventions of the Office Togolais de commercialisation des céréales (Togolese Cereal Marketing Board - TOGOGRAIN) brought stability to the grains market. The main obstacles remain ineffective management, insufficient investment in the rural sector, ageing coffee and cocoa plantations, unsuitable farming methods and the little use of agricultural inputs on which subsidies are being phased out.

B. Mining

519. During the period under review, the mining sector, which fetched approximately 40.4 per cent of export earnings and accounted for 8.2 per cent of GDP went through a deep recession registering a decline in real growth of around 7.3 per cent. The Office togolais des phosphates (OTP) made substantial transfers of funds to the Government's coffers over a long period of time; at one point such transfers accounted for 14.7 per cent of total budget revenue. Apart from the decline in world phosphate prices the other causes of the current crisis in the sector were the little attention paid to the restructuring of OTP under adjustment programmes and the lack of accounting by past management which resulted in a freeze on financial assistance.

C. Manufacturing

520. This sector accounted for 7 per cent of GDP and grew at an average annual rate of 4.9 per cent in real terms. Most of the institutional reforms were carried out in the sector including the closure or privatisation of public enterprises. The current trend appears to be towards the promotion of small- and medium-sized private enterprises. Thus, since 11 April 1986, the manufacturing sector has been enjoying a special tax system reflected in (a) the abolition of all export taxes and duties on industrial products and (b) the reduction by 75 per cent of import taxes on all raw materials and semi-finished products and 50 per cent on finished products. However, the substantial contraband trade in industrial goods seems to be competing with locally produced industrial goods that are already handicapped by the limited size of the domestic market.

521. The share of buildings and public works in GDP grew from 8 to 11.4 billion CFA francs (at 1980 prices) between 1985 and 1986. However, that share was adversely affected by the production stoppage at CIMAO.

VII. IMPLEMENTATION OF THE SUBSTANTIAL NEW PROGRAMME OF ACTION

522. From 20 to 24 October 1986, the Government of Togo organized a sectoral round table on economic and socio-cultural infrastructures which followed a donor round table held from 26 to 28 June 1985 and another in March 1986 on rural development. The total cost of the programme on economic infrastructures is approximately 10[illegible].6 billion CFA francs which could be broken down as follows: (a) 8.7 billion for transport and communications; (b) 35.7 billion for water supply and sanitation; (c) 10.2 billion for urban development and environment and (d) 11 billion for energy. Pledges made amounted to about 11.2 billion CFA francs.

523. The programme on socio-cultural infrastructures costs 56.2 billion CFA francs of which 30.[illegible] billion goes to education and training, 12.2 billion to health, 5.3 billion to information and 5 billion to youth and sports. Total pledges of 7.5 billion CFA francs were made.

524. The objectives of the programmes include: (a) rehabilitating and strengthening existing infrastructures; (b) promoting participative development; (c) making the country self-reliant in energy particularly following the commissions of the Nangbeto dam; (d) strengthening Togo's role as a transit country and opening up the country's waterland; (e) developing human resources; and (f) strengthening the country's management capacity. On the whole, the donors agreed in principle to the strategies submitted and the financing requested. Financing was often deferred to permit better project preparation and the establishment of mechanisms likely to promote co-financing.

525. No estimates are available on the volume of aid that Togo had received since the first donors round table was held; however, all indications are that the volume of grants and concessional loans are on the increase even for aid that is not directly linked to projects which grew from 8.9 billion CFA francs in 1983 to between 15 and 16 billion CFA francs in 1984-1985 and to 18.6 billion in 1986.

VIII. MEDIUM-TERM PROSPECTS

526. Should the Government follow through with its restructuring efforts public finances should improve further in 1987 with a deficit of about 3.8 billion CFA francs including grants and a declining external debt whose servicing is expected to absorb approximately 50 per cent of public revenue. The global external payments deficit is expected to be about 1.2 billion CFA francs because of a clear recovery in the trade balance. Overall, the stagnation of the investment rate and the slow reaction from the private sector to the State's withdrawal from unprofitable public enterprises should bring down the growth rate to an estimated 2.2 per cent in real terms.

UGANDA

I. OVERALL GROWTH PERFORMANCE

527. The recovery of the Ugandan economy that was signalled between 1980 and 1983 foundered in 1984 because of the Civil War. With a seemingly improved security situation in 1985, the economy was expected to pick up but the persistence of such problems as shortages of foreign exchange, currency over-evaluation, acute shortages of essential goods, price distortions and a thriving black market, made it difficult to revive the economy.

528. Real GDP is estimated to have declined by as much as 5.4 per cent in 1985. A modest recovery is eminent in 1986 with a projected GDP growth rate of 2.4 per cent fuelled essentially by improved coffee export earnings. Despite the paucity of data on trends in consumer price indices, comparisons of commodity price increases suggest that the rate of inflation is running at well over 250 per cent per annum.

II. MAJOR DEVELOPMENT PROBLEMS AND POLICIES

529. Since the 1970s, the Ugandan economy has been greatly affected by political instability. Production activities have been ravaged by wars to the extent that in 1985, some parts of the country were totally cut-off from the main administrative and economic framework. The main problem areas that has attracted Government's urgent attention include. (a) rehabilitation of the war-ravaged areas (b) revitalisation of the industrial infrastructure (c) removal of the disequilibria in the monetary and price structure including, in particular, the reduction of excess liquidity, control of rampant inflation and reforming the exchange rate system.

530. In the 1986/87 budget, as part of a significant currency reform, the government announced the abandonment of the two-tier exchange rate and set a single exchange rate of US$1 = USh. 1400 which implies a de facto revaluation of the Ugandan shilling. Indeed, in the face of very limited export earnings, slow response in international assistance and a relatively heavy debt burden, the government plans to use its foreign exchange earnings very prudently. A priority list of essential goods has been established for which scarce foreign exchange will be allocated to importers. To minimize the inflationary impact on real income the government raised the salaries and wages of public sector employees by 50 per cent and also made changes in company tax rates, customs duties and sales tax as a means of increasing recurrent revenue.

531. Other measures include, interalia, the selling of private properties that were nationalized after the Asian expulsion and which had not been reclaimed by the original owners, the re-examination of parastatal bodies including the winding up of inefficient government institutions and a substnatial increase in producer prices of key export commodities, viz coffee, cotton, tea and tobacco as an incentive to boost production.

III. EXPENDITURE ON GDP

532. Domestic expenditure on GDP continued to show substantial increases in both public and private consumption. During 1985/86, public consumption increased as a result of an expansion in government services for emergency relief in the war-ravaged areas and the provision of free education in some parts of the country. Private consumption in nominal terms also continued to expand rapidly mainly as a result of the inflationary trends. The general decline in real income had dissipated the initiatives to save and consequently, gross fixed capital formation had stagnated.

IV. PUBLIC FINANCE

533. Actual total recurrent expenditure for FY85/86 was around U Sh. 514.3 billion while revenue, including development receipts, amounted to U Sh. 402.5 billion leaving an overall deficit of U Sh. 104.6 billion. This huge budget deficit was occasioned by increased demand on government services for: emergency relief; increases in salaries and wages of public sector employees; and higher cost of external payments resulting from the continued depreciation of the shilling.

534. The budget for 1986/87 estimates total spending to rise by 119 per cent to U Sh. 1127.5 billion, a decrease in real terms taking into account a rate of inflation estimated at 250 per cent. Some U Sh. 509.7 billion is allocated for recurrent expenditure of which 31 per cent will be spent on defence. Statutory recurrent is budgeted at U Sh. 134 billion; development expenditure is estimated at U Sh. 474.1 billion and statutory development at U Sh. 9.8 billion. Revenue is up by 90 per cent at U Sh. 777.8 billion of which, U Sh. 487.3 is to come from taxes while development revenue is budgeted at U Sh. 273.7 billion. The overall budget deficit of U Sh. 349.7 billion will be financed from domestic bank borrowing and non-bank sources including increases in taxation.

V. EXTERNAL TRADE, BALANCE OF PAYMENTS AND EXTERNAL DEBT

535. Over the years, the export base of the Ugandan economy had narrowed down to coffee. Thus by 1985, official statistics show that nearly all the export earnings of US$380 million consisted of receipts from coffee. In line with the declining exports, imports have significantly dropped from US$428 million in 1983 to US$264 million in 1985. This drop reflected the country's growing inability to raise enough foreign currency to finance imports. The government has begun an intensive export drive and one approach been experimented is bilateral barter trade which is expected to bring in over US$40 million per year.

536. The country experienced substantial trade deficits between 1980 and 1982 although by 1985 a surplus was recorded in the trade balance largely because of disruption of imports. On the capital account, a surplus of $27 million was recorded in 1983 as a result of substantial use of borrowed resources, particularly from the IMF. However by 1984 repayment of the country's debt owed to IMF was in excess of authorized drawings to the tune of $10 million hence the start of the balance of payment disequilibria which persisted up to 1986.

537. According to recent information, Uganda's external indebtedness is estimated at around US$1.5 billion. Although the government has been able to pay an estimated debt service of US$200 million in 1985, this level represents well over 50 per cent of total export earnings. This poses a major financial constraint and with the stagnation in the flow of Official Development Assistance (ODA), the ongoing efforts to establish economic recovery will be adversely affected.

VI. SECTORAL PERFORMANCE

A. Food and Agriculture

538. Agriculture remains the key sector in Uganda's short-term recovery and long-term development. The sector involves around 90 per cent of the population, accounts for over 95 per cent of export earnings and contributes a large proportion of output and government revenue. Although overall agricultural output dropped by 5.5 per cent in 1985 compared to 1984, the food sector seems to have maintained its historical resilience to internal distortions and disruptions mainly because of the very favourable climatic and soil conditions. Thus, food production is estimated to have remained favourable.

539. Coffee production would seem to have declined if coffee exports are any indications although its noteworthy that in 1985 a lot of coffee was smuggled out of the country such that only 2.5 million bags were officially exported. Two months before the end of the 1985/1986 coffee season, only 1.7 million bags had been exported indicating that the 1986 coffee exports might, at best, just be equal to the 1985 level.

B. Manufacturing

540. The manufacturing sector is plagued by serious problems of long-term neglect, lack of spare parts and other essential equipments for the rehabilitation of ailing plants as well as a very low level of productivity. The overall performance of the sector was so poor that only a few industries operated at capacity utilisation rates of more than 20 per cent. The industries did not only lack funds to purchase raw materials and capital inputs, but lacked working capital as well. Some industries even stopped operations because currency devaluation made it impossible for continued production activities due to the resultant high cost of essential inputs.

VII. IMPLEMENTATION OF THE SUBSTANTIAL NEW PROGRAMME OF ACTION

541. With the assistance of IBRD, the Ugandan Government organized a third consultative group meeting in Paris 24-25 January, 1985 to solicit donor support, in terms of financial and material resources, for the implementation of the national economic recovery programme. The current estimate of resource requirements to finance public sector investments under the recovery programme up to 1990 is put at $2500.1 million, of which, according to indications, $1164.1 million (domestic: $77.4 million and external: $1087.1 million) may be available. This leaves a resource gap of $1335.7 million for which international support would be required to ensure the successful realization of the objectives of the country's economic policy package. Under Lome III, Uganda's aid allocation is estimated at Ecu 125 million.

VIII. MEDIUM-TERM PROSPECTS

542. Political stability under the present regime and favourable weather conditions to boost coffee production (the major foreign exchange earner) are the two principal factors in assessing Uganda's economic prospects. The upsurge in world coffee prices in 1986 is expected to be maintained in 1987, which, combined with the suspension of the ICO quota, would enhance Uganda's foreign exchange earning capacity and bring about an upturn in overall economic performance. Based on this optimistic scenario, ECA's preliminary estimates indicate that the growth in real GDP of 2.4 per cent in 1986 will accelerate to 7.4 per cent in 1987.

TANZANIA

I. OVERALL GROWTH PERFORMANCE

543. Despite the severe financial difficulties that continue to plague the Tanzanian economy, the recovery that was signalled by a 3 per cent GDP growth rate in 1984 was maintained in 1985 though at a lower rate of 2.3 per cent with much of the growth emanating from the service sector. The key production sectors registered negative growth in 1985 with agriculture (46 per cent of GDP) receeding by 1.6 per cent as compared to an increase of 2.6 per cent in 1984.

544. The sluggish growth in agriculture depressed the overall growth in real GDP in 1985 below the annual population growth rate of 3.3 per cent implying a decline in income per capita of about 1 per cent. In cumulative terms, this trend represents an 11 per cent drop in real per capita income since 1980, estimated at Shs. 1159 in 1985. Excess demand persisted in 1985 but less pronounced as in 1984, the year the import liberalization scheme started. Improvement in the food supply situation as well as availability of other basic consumer goods contributed to the drop in the inflation rate officially estimated at 28 per cent in 1985 as compared to 36 per cent in 1984.

II. MAJOR DEVELOPMENT PROBLEMS AND PRICES

545. Since 1981/82, Tanzania has been experiencing a recurrence of the same problems only with varying degrees of intensity. The current situation can be described simply as - acute shortage. The acute shortage of foreign exchange due to drastic fall in export earnings as well as drop in external resource flow, has meant acute shortage of raw materials and other essential inputs and spare parts which had an adverse effect on the key productive sectors. Official prices have ceased to reflect the underlying demand and supply situation and provide widespread signals to the economy causing serious mis-allocation of resources. These problems have also been compounded by natural calamities notably the 1982-1984 drought. Inefficiencies within parastatal organization have contributed to these problems through increased demand for subsidies.

546. The continued drop in export earnings has put pressure on foreign exchange reserves which have been virtually depleted whilst the government's accumulated external payments arrears has lept to $700 million.

547. In two medium-term programmes i.e. the national economic survival programmes (1980-1982) and the structural adjustment programme (1982/1983-1984/85), the Government had taken policy measures aimed at redressing the above internal economic imbalances. These measures have largely been:

- increasing agricultural output through increases in producer prices especially of cash corps, by 5-10 per cent in real terms or set it at 60-70 per cent of export prices, which ever is higher;
- strict control on public spending which led to a reduction in the budget deficit. The civil service was reduced by over 20,000 and freeze of employment; and some subsidies eliminated;

- reducing the growth of money supply which resulted in a drop in the rate of domestic credit from 34 per cent in 1980-1984 to 21 per cent in 1985;
- Institutional structure of the agricultural marketing parastatals were substantially changed with a view to improving efficiency;
- exchange rate adjustments from Shs 8 = 1$ in June 1982 to Shs 40 = 1$ in June 1986;
- Decontrol of the price mechanism which significantly reduced the number of products under price control from about 400 product types in 1973 to about 47 commodity types as of mid-1986.

548. Notwithstanding all the above efforts, the economic and financial situation of the country had continued to deteriorate. As a sucession to the earlier two medium-term programmes, the government has now embarked on the implementation of a three-year Economic Recovery Programme (1986/87-1988/89). The main objective of the programme include: increasing production levels in key sectors especially food and export crops, through appropriate incentives and provision of service; increasing foreign exchange earnings from exports with the aim of improving the balance of payments position; reducing the budget deficit as well as growth in money supply and containing inflationary pressures. Others include increasing capacity utilization to a level of 60-70 per cent from its present level of below 30 per cent; restore internal and external balance through prudent monetary and fiscal measures.

549. In the first year of the programme exports are projected to about $410 million. Official and private transfers receipts plus medium and long-term capital inflow, mainly from existing contracts and normal import support from major donors is expected to provide $743 million. Abstracting from import requirements, other total foreign exchange commitments are estimated at $560 million, including $237 million in service payments (mainly interest), $180 million in amortization of medium-and long-term loans, some $30 million in respect of IMF repurchases (including the elimination of $25 million overdue obligations), and a cash reduction in commercial and other payments arrears of some $25 million. In the absence of additional financing, total net foreign exchange availability would thus amount to about $593 million. With the ERP in place it is expected that additional financing of about $500 million would be available, with resourses under the IMF stand by arrangement and the structural adjustment facility providing $75 million and a World Bank multi-sector rehabilitation credit of about $100 million.

III. EXPENDITURE ON GDP

550. Since 1982 the structure of aggregate demand has been characterised by increases in the share of consumption in GDP (at market prices) alongside declining shares of investment and exports. In 1985, the ratio of total consumption (public and private) to GDP rose from 95 per cent to 97 per cent with much of the increase accounted for by private consumption.

551. Gross investment to GDP ratio remained somehow at the same level at 14.1 per cent in 1985 as compared to 14.5 per cent in 1984 but financing from both domestic savings and foreign sources grew by about 25 per cent as compared to 16 per cent in 1984 (1976 prices). Based on available data and trend exhibited in 1984 gross domestic savings declined from Shs 4644 million in 1984 to Shs 4180 million in 1985 or a drop of about 10 per cent. Gross fixed capital formation increased by 25 per cent in 1985 as against 15.5 per cent in 1984 mainly as a result of imports of machinery and equipment and increases in stocks.

IV. PUBLIC FINANCE

552. The usual imbalances in the government budget prevailed again in 1985/86 with expenditure far outstripping revenue. The likely outturn of total expenditure by end-June 1986 is expected to be Shs 32,766.5 million as against an original estimate of Shs 30,180 million. The share of recurrent expenditure was Shs 25,904.2 leaving only Shs 6,862.3 for development expenditure. Increases in the current expenditure is mainly for high cost of public administration, debt payments and increase in government subsidies.

553. Revenue out-turn is expected to be in the neighbourhood of Shs 22,156.1 million, an increase of 11.3 per cent over the budget estimates. In spite of this improvement, a substantial deficit emerged which had to be financed by recourse to borrowing from the banking system.

554. The current expenditure in 1986/87 is budgeted at Shs 39,736 million, an increase of Shs 13,832 million or 53.4 per cent over the likely outturn for 1985/86. The increase has been warranted by the measures adopted under the ERP. Development expenditure is estimated at Shs 15,859.3 million bringing total budgeted expenditure to Shs 55,595.3 million. Government expects to raise Shs 31,212 million from current revenue sources. To finance the shortfall of Shs 24,383 million, external grants and credits is anticipated to be around Shs 17,333 million; Shs 2,143 million from non-bank borrowing and Shs 2,500 million from domestic bank borrowings. New tax measures will fill the remaining gap of Shs 2,408 million.

V. EXTERNAL TRADE, BALANCE OF PAYMENTS AND EXTERNAL DEBT

555. The deteriorating external payments position persisted in 1985. Export earnings fell drastically by 22 per cent to $315.6 million compared to $405.1 million and $412 million in 1984 and 1983 respectively. This set back in export performance is attributed to two factors, i.e. cash crop production shortfalls and the drop in world prices of Tanzania's main agricultural commodities in 1985 notably cotton by 25 per cent and tea by 4.3 per cent.

556. On the other hand, the value of imports increased by 12 per cent from $839 million in 1984 to $942 million in 1985 which implies that export earnings in 1985 could only finance 33 per cent of imports with the rest financed through external loans and grants. Also imports by own-foreign exchange earners reached $120 million under the import liberalization scheme which eased up the export/import financing gap.

557. Nonetheless the acute shortage of foreign exchange had resulted into accumulated external payment arrears of $700 million as at end March 1986 while foreign reserves had been virtually depleted. According to IMF estimates, Tanzania's external debt now stands at an equivalent of $3.5 billion with annual debt service of 57 per cent.

VI. SECTORAL PERFORMANCE

A. Food and agriculture

558. Improved rains and general climatic conditions in 1985/86 crop season produced mixed results for Tanzanian agriculture. While farmers boosted output of food grains, the heavy rains were a deterrent to matured cash crops. As reflected by the purchases of the National Milling Corporation (NMC) - the best agricultural production indicator so far - as well as those of cooperatives, total tonnage of food grains (maize, rice, wheat, millet and beans) purchased as of end March, 1986 stood at 311,500 as compared to 167,860 tonnes in 1984/85. On the other hand cash crop production dropped by 28.6 per cent in 1985/86 notably the substantial production short fall in cotton output. Consequently overall sectoral growth rate receded by 1.6 per cent compared to an increase of 2.6 per cent in 1984.

559. Parallel to weather conditions, agriculture in Tanzania is beset with such crucial problems as inadequate incentive system especially with regards to producer prices for export crops which contributed to drastic drop in production. Foreign exchange constraints limited the Government's ability to provide adequate input supply (fertilizers and seeds) and necessary implements and tools to farmers. There is also the acute transport bottleneck and storage facilities.

560. Policy measures have been taken and will continue under the Economic Recovery Programme (ERP) - 1986/87-1988/89 - to redress these problems. These include substantial increases in producer prices particularly of export crops at a level equivalent to 60-70 per cent of export prices or 5 per cent in real terms per annum whichever is higher. Other measures include improvement in marketing structures and increased investment allocation to the sector which under the 1986/87 annual plan accounts for 29 per cent of the 44 per cent of total resources planned for all the directly productive sectors. The investment and rehabilitation drive aims at enabling the sector's contribution to increase by 5.3 per cent annually.

B. Industry

561. As was the case in the past five years industrial output continued to decline in 1985 falling by 6.4 per cent to Shs 2 billion from Shs 2.2 billion in 1984 (1976 prices). The sector's contribution to GDP declined from 10 per cent in 1981 to 8 per cent in 1985 with most of the industries operating below 30 per cent of installed capacities.

562. The major causes of this poor performance is the acute shortage of foreign exchange to finance imports of industrial raw materials and other essential inputs coupled with such production retarding factors as frequent power outage and inadequate supply of water. Under the ERP, substantial foreign exchange allocation will be made to priority industries to ensure the availability of inputs and other requirements. The manufacturing sector has been allocated about 9.8 per cent of the development budget. The Governments' objective is to increase the growth rate of the sector by about 4 per cent per annum.

VII. IMPLEMENTATION OF THE SUBSTANTIAL NEW PROGRAMME OF ACTION (SNPA)

563. From 10 to 11 June 1986, Tanzania organized a consultative group meeting in Paris with the assistance of the World Bank. At the meeting donors pledged about $130 million in addition to their normal aid commitments. In pledging, donors conditioned continued additional assistance on the assumption that a stand-by arrangement with IMF would remain operative.

564. Tanzania has already approached the Paris Club and other official creditors for debt relief on current maturities in respect of medium and long-term debt and existing payment arrears in respect of all obligations. The projected debt relief, combined with the expected external assistance would allow the import bill to attain about $1,100 million, a level not far short of the $1,200 million established by the Economic Recovery Programme and represents an increase in real terms of some 15 per cent over the 1985 outcome.

VIII. MEDIUM-TERM PROSPECTS

565. The delayed implementation of the Economic Recovery Programme may undermine growth prospects in 1986 but 1987 seem promising provided the anticipated foreign exchange inflows to finance both recurrent and development expenditures materialize. Total exports are expected to improve considerably from the depressed levels of 1985 to attain about $410 in 1986 and $442 in 1987. Such inflows combined with further exceptional financing and debt relief, would increase the import capacity of the country to support the adjustment effort in rehabilitating infrastructure which is essential to sustain the expected improvement in production. Increase in producer prices and input availability to farmers as envisaged in the Economic Recovery Programme could reinforce agricultural activity.

566. With the expected foreign exchange inflow in 1986/87, the external reserve position is targetted to improve by some $20-$25 million while accumulation of external arrears will be curtailed to the minimum. Inflation is expected to decline below the current level of 28 per cent largely on account of tight fiscal and monetary policies. Overall real GDP is projected to grow at around 4.5 and 5 per cent in 1986 and 1987 respectively.